中昱科技集團有限公司

Sunrise (China) Technology Group Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 8226

GREEN ENERGY TOWARDS SUSTAINABLE DEVELOPMENT

Annual Report 2013

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CORPORATE INFORMATION

DIRECTORS

Executive Directors

Mr. Shan Xiaochang
(Board Chairman and Chief Executive Officer)
Ms. Shan Zhuojun
Mr. Ma Arthur On-hing

Independent Non-executive Directors

Mr. Wang Jialian
Mr. Wang Zhihua
Ms. Chan Sze Man

COMPANY SECRETARY

Mr. Tam Chak Chi

AUDIT COMMITTEE

Ms. Chan Sze Man
(Committee Chairman)
Mr. Wang Jialian
Mr. Wang Zhihua

NOMINATION COMMITTEE

Mr. Shan Xiaochang
(Committee Chairman)
Mr. Wang Jialian
Ms. Chan Sze Man

REMUNERATION COMMITTEE

Ms. Chan Sze Man
(Committee Chairman)
Mr. Shan Xiaochang
Mr. Wang Zhihua

AUTHORISED REPRESENTATIVES

Mr. Shan Xiaochang
Mr. Tam Chak Chi

REGISTERED OFFICE

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P.O. Box 2681
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Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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Wan Chai, Hong Kong

COMPLIANCE OFFICER

Mr. Shan Xiaochang

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Royal Bank of Canada Trust Company (Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman KY1-1110
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Union Registrars Limited
18th Floor
Fook Lee Commercial Centre
Town Place, 33 Lockhart Road
Wanchai
Hong Kong

AUDITOR

CCTH CPA Limited

PRINCIPAL BANKERS

Hang Seng Bank Limited
Bank of China (Hong Kong) Limited

LISTING INFORMATION

The Growth Enterprise Market of the Stock of Exchange of Hong Kong Limited
Stock code: 8226

COMPANY'S WEBSITE

www.sunrisechina-tech.com

FIVE YEARS FINANCIAL SUMMARY

The following is a summary of the consolidated results, assets, liabilities and equity attributable to owners of the Company:

CONSOLIDATED RESULTS OF THE GROUP

	2009 HK$'000	2010 HK$'000	2011 HK$'000	2012 HK$'000 (restated)	**2013** **HK$'000**
Turnover	434,766	653,722	724,008	875,577	**510,677**
Cost of sales	(336,876)	(490,797)	(575,540)	(689,999)	**(397,735)**
Gross profit	97,890	162,925	148,468	185,578	**112,942**
Other revenue, gains and losses (net)	(433)	(63,703)	(18,636)	53,506	**(50,191)**
Selling and marketing costs	(13,051)	(18,185)	(23,475)	(32,879)	**(14,905)**
Administrative expenses	(60,337)	(115,809)	(129,410)	(156,962)	**(109,667)**
Finance costs	(10,178)	(10,182)	(10,428)	(25,820)	**(17,789)**
Profit/(loss) before tax	13,891	(44,954)	(33,481)	23,423	**(79,610)**
Income tax	(947)	(10,207)	(9,162)	(7,496)	**(70)**
Profit/(loss) for the year	12,944	(55,161)	(42,643)	15,927	**(79,680)**
Non-controlling interests	(16,157)	(22,746)	(7,137)	(6,876)	**27,511**
(Loss)/profit attributable to owners of the Company	(3,213)	(77,907)	(49,780)	9,051	**(52,169)**

CONSOLIDATED ASSETS, LIABILITIES AND EQUITY

	2009 HK$'000	2010 HK$'000	2011 HK$'000	2012 HK$'000 (restated)	**2013** **HK$'000**
Total assets	534,066	639,741	844,032	1,083,550	**291,801**
Total liabilities	(352,754)	(361,463)	(562,529)	(758,924)	**(200,922)**
Total assets less total liabilities	181,312	278,278	281,503	324,626	**90,879**
Non-controlling interests	(98,817)	(127,108)	(153,397)	(184,495)	**(28,366)**
Equity attributable to owners of the Company	82,495	151,170	128,106	140,131	**62,513**

Certain 2012 financial information has been restated for the reasons as set out in Note 1a to the consolidated financial statements of the Group for the year ended 31 December 2013.

CHAIRMAN'S STATEMENT

On behalf of the board (the "Board") of the Directors, I am pleased to present the annual report of Sunrise (China) Technology Group Limited (together with its subsidiaries, the "Group") for the year ended 31 December 2013.

THE YEAR UNDER REVIEW

In 2013, the Group continued to seek environmental related investment opportunities under its stated development goals. With heightened environmental concerns among Chinese government and its citizens, the relevant PRC authorities have promulgated several policies with a view to encourage the development of environmental related industry. The Group, being provided such valuable opportunities, has been proactively commencing development and reorganization of its subsidiaries engaged in the environmental related sector.

The Group's core business, Heilongjiang Province Shengyan New Energy Development Limited ("Shengyan") is principally engaged in the production and sale of straw fuel briquettes. To support the green development concept promoted by China's 12th Five Year Plan, Shengyan has constructed 1 main plant and around 30 sub-plants in Baiquan County of Heilongjiang Province to recycle local waste straw into biomass product which can be used as a substitute for fossil fuels like coal through treatment process. Such business not only accelerates strategic measures for energy saving and emission reduction, but also protects the ecological environment from being polluted. At the same time, it is profitable to Shengyan and the Group with consideration to its entitlement of project subsidy and other incentive policies offered by the Ministry of Finance.

Due to its strong market position in Heilongjiang Province, Shengyan has stable straw supplies and product demand and receives support from the local government. During the year under review, Shengyan recorded a sales revenue of approximately HK$28.5 million and a gross profit of approximately HK$3.1 million. Further, Shengyan was granted annual subsidy amounting to approximately RMB 18.8 million based on its annual volume of sales in 2011 offered by Ministry of Finance of the State Council of the PRC. The Group is fully confident to continuously develop its environmental related businesses in the future.

The Group faced challenges in its manufacturing and sales of loudspeaker systems business ("Loudspeaker Business") in light of the slow US economic recovery, the continuous Euro area debt crisis and the weakening PRC economic growth which had affected market demands as well as the historical high level of raw material and labour costs in the PRC. Hence, the Group decided to dispose of the Loudspeaker Business for a total consideration of HK$122.0 million, and the disposal was completed on 18 July 2013, resulting in a gain on disposal of HK$18.5 million. In light of the deteriorating financial performance and position of the Loudspeaker Business, the disposal allowed the Group to devote its resources to the operation of its environmental related businesses and to improve the working capital and gearing positions of the Group.

The Group's other subsidiary, Jiangsu Shengyi Environmental Technology Co., Ltd ("Shengyi") was principally engaged in the provision of technological desulphurization service, which could effectively reduce sulphur dioxide and hydrogen sulfide emissions generated from burning of fossil fuels such as coal, natural gas and oil products. The number and aggregate amount of construction contracts newly acquired by Shengyi in 2013 increased as compared with those of 2012, but however, there was an increase in administrative expenses, which limited the profitability of Shengyi. For the year ended 31 December 2013, Shengyi recorded a net loss after tax of approximately HK$6.1 million. Shengyi was disposed by the Group on 30 January 2014 for a total consideration of HK$50,980,962. Having considered that (i) Shengyi had not generated profits to the Group since its acquisition by the Group; and (ii) the Consideration represented a premium of approximately 436.6% to the Group's total investment in Shengyi of approximately HK$9.5 million since acquisition, the disposal provided an opportunity for the Group to generate gains from realizing its investment in Shengyi and to devote its resources to the operation of the business of the remaining Group and to improve the working capital of the Group.

LOOKING AHEAD

In recent years, there have been different levels of environmental issues exposed in various regions of the PRC, continuously boosting public awareness of environmental protection throughout the country and making the Chinese government to strive for integrated management enhancement of pollution prevention, energy conservation and emission reduction at the enterprise level. Benefited from the enormous support given by the government towards environmental related industry, the environmental sector is filled with promising development opportunities and clear direct guidelines, further fortified the Group's objective to develop the environmental related industry.

In 2014, the Group will continue to strengthen the existing business of Shengyan, proactively explore new business scope and continuously seek other suitable investment opportunities. In addition, the Group also plans to gradually open up its international market in coming years with an aim to promote its advanced environmental technology and concept worldwide.

Besides, the Group will continue to strictly control risks, strengthen internal management, integrate dominant resources and develop a cautious investment strategy in order to create a better return for its shareholders.

APPRECIATION

On behalf of the Board and management, I would like to express gratitude to the Group's staff for their unwavering dedication and hard work during the year. I would also like to extend my thanks to all shareholders and business partners who have supported the Company throughout its ups and downs.

Shan Xiaochang
Chairman

Hong Kong, 31 March 2014

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Shengyan

Shengyan was incorporated in the PRC in July 2010 with a registered capital of RMB30 million and is principally engaged in the production and sale of straw fuel briquettes, which is a type of biofuels and a substitute for coal in the northeast region of the PRC. The Group completed the acquisition of its 51% interest in Shengyan in December 2012. The business model of Shengyan is briefly summarised as follows:

- Straw collection – purchase, collect and strap raw straw from farmers and transport to the warehouses for storage;

- Straw chopping – the collected straw is then crushed into fine powder through crushing equipments;

- Straw briquetting – the powdered straw is then put into the briquetting press machines from where it is compressed and processed before straw fuel briquettes are made; and

- Sale of finished products – upon receiving sales orders, the straw fuel briquettes are then sold to customers.

The customers of Shengyan are mainly consisted of companies located at Heilongjiang Province in the PRC, which are engaged in agricultural and manufacturing industries and use the straw fuel briquettes for different usage such as heat generation. Revenue of Heilongjiang Shengyan is mainly derived from the sale of straw fuel briquettes by sales orders from customers and Shengyan purchases raw straw directly from many different local farmers located at the Baiquan County of Heilongjiang Province.

Shengyi

Shengyi was principally engaged in the provision of technological desulphurization service, which could effectively reduce sulfur dioxide and hydrogen sulfide emissions generated from burning of fossil fuels such as coal, natural gas and oil products. Since there was a slowdown in overall economic growth during the past year and many traditional chemical manufacturers were suffering from cash flow shortages, existing contracts of Shengyi were experiencing slow progress.

Reference is made to the announcement of the Company dated 23 December 2013 and the circular of the Company dated 30 January 2014 in relation to the disposal of a subsidiary, the Company and a purchaser entered into a sale and purchase agreement, pursuant to which the Company conditionally agreed to dispose Confident Echo Holdings Limited and its subsidiaries including Shengyi at an aggregate consideration of HK$50,980,962. The disposal was completed on 30 January 2014.

Loudspeaker Business

The Loudspeaker Business was principally engaged in the manufacture and sale of loudspeaker systems used in both automobiles and home theatres and the provision of after-sales service. It manufactured different types of loudspeaker systems for automobiles and home theatres on an OEM and ODM basis, all of which had different quality, sizes, designs and/or functions or were tailor-made for different customers.

The business faced challenges in light of the slow US economic recovery, the continuous Euro area debt crisis and the weakening PRC economic growth which had affected market demands as well as the historical high level of raw material and labour costs in the PRC.

Reference is made to the announcement of the Company dated 9 May 2013 and the circular of the Company dated 28 June 2013 in relation to the disposal of the entire interests of a wholly-owned subsidiary, the Company and a purchaser entered into a sale and purchase agreement, pursuant to which the Company conditionally agreed to dispose Taraki Inc. and its subsidiaries (which represented all of the Loudspeaker Business) at an aggregate consideration of HK$122 million. The disposal was completed on 18 July 2013.

FINANCIAL REVIEW

The Group has commenced its environmental related businesses since 2012. Revenue generated from such businesses was increased by 21.8% to HK$ 61.5 million (2012: 50.5 million) for the year ended 31 December 2013. The gross profit ratio decreased to 11.0% (2012: 31.3%) for the year ended 31 December 2013.

The Group recorded a decrease in overall turnover of 41.7% to approximately HK$510.7 million (2012: HK$875.6 million) due to the disposal of Loudspeaker Business, revenue generated from which was approximately HK$449.1 million before the date of disposal.

The Group recorded net loss of approximately HK$79.7 million, compared with a profit of approximately HK$15.9 million for the previous financial year. The loss primarily arose from the impairment loss on trade receivables, write-down of inventories, loss on redemption of convertible loan notes and the impairment loss on other receivables of the Loudspeaker Business.

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

For the year ended 31 December 2013, the Group's major business operations took place in China, financed mainly by the cash revenue generated from operating activities and by corporate borrowings. As at 31 December 2013, the Group had cash and bank balances together with restricted and pledged bank deposits of approximately HK$0.5 million (2012: HK$142.9 million). The decrease in cash and bank deposits was primarily attributable to the cash and bank balance derecognised on the disposal of subsidiaries and the repayment of other payables and other borrowings during the year. As at 31 December 2013, the Group's total indebtedness comprised of the amount due to Noteholder of approximately HK$46.0 million (2012: HK$162.6 million which comprised of liability portion of outstanding convertible loan notes and the bank and other borrowings). With reference of the note 33 to the consolidated financial statements, the Convertible Loan Note were redeemed by the Noteholder for a consideration of RMB 35,956,376 (equivalent to approximately HK$ 45.5 million. Such consideration payable to the Noteholder has been overdue at the end of the reporting period and interest on such payable was charged at 18% per annum. A total amount of RMB21.6 million was repaid to the Noteholder on 10 January 2014.

As at 31 December 2013, the Group's outstanding number of issued shares of HK$0.01 each was 431,764,974 shares (2012: 431,764,974 shares).

The Group's gearing ratio, as a percentage of total indebtedness over total indebtedness and total equity, as at 31 December 2013 was 32.3% (2012: 34.4%).

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

Save as disclosed in the note 39 and 40 to the consolidated financial statements, the Group did not have other material acquisitions and disposals of subsidiaries and affiliated companies.

CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

As at 31 December 2013, the Group did not have any significant capital commitments (2012: HK$1.3 million).

As at 31 December 2013, the Group did not have any significant contingent liabilities.

FOREIGN EXCHANGE EXPOSURE

During the year under review, the Group's transactions were mainly denominated in Renminbi, Hong Kong dollars, US dollars and Euro which exposed the Group to currency risk. The Group currently does not have a foreign currency hedging policy in place but the management continuously monitors foreign exchange exposure and will consider hedging significant foreign exchange exposure should the need arise.

PLEDGE OF ASSETS

At 31 December 2013, the Group did not have any substantial pledge of assets.

At 31 December 2012, the Group's certain leasehold land and buildings and investment properties with aggregate carrying amount of approximately HK$116.3 million were pledged to secure general banking facilities granted to the Group.

At 31 December 2012, bank deposits denominated in Renminbi of approximately HK$49.1 million were pledged to secure the banking facilities granted to the Group.

EMPLOYEES AND REMUNERATION POLICY

At 31 December 2013, the Group had about 113 (2012: 2,550) employees. The Group's staff costs, including directors' emoluments, employees' salaries and retirement benefits scheme contribution amounted to approximately HK$107.6 million (2012: HK$170.8 million).

The Group believes that its staff is one of the Group's most important assets. Aiming at providing competitive salary packages, the Group adjusts employees' salary level in close association with the performance, qualifications and experience of individual staff as well as labour market conditions. In addition to the regular remuneration, discretionary bonus and share options may be awarded to eligible employees with reference to individual performance and the Group's business performance. The Group is also committed to providing appropriate on-going training to staff members to equip them for future career development.

SUBSEQUENT EVENTS

Details of subsequent events are set out in the note 47 to the consolidated financial statements.

DIRECTORS AND SENIOR MANAGEMENT PROFILES

EXECUTIVE DIRECTORS

Mr. Shan Xiaochang, aged 49, is the executive Director, the chairman (the "Chairman") and the chief executive officer (the "Chief Executive Officer") of the Company. He is an entrepreneur in the PRC with over 18 years of experience in corporate finance, operation and cash flow management and research and development. Mr. Shan is mainly responsible for the development of the Company's major business strategy and related financing. He is an uncle of the executive Director Ms. Shan Zhuojun.

Ms. Shan Zhuojun, aged 37, is the executive Director. She has obtained her bachelor degree in North China University of Technology with a major at Accounting and Audit. She has 18 years of experience in accounting and financial management. Ms. Shan is responsible for the supervision of the Company's daily working capital, and assisting the management in project financing analysis. Ms. Shan is a niece of Mr. Shan Xiaochang, the executive Director, the Chairman and the Chief Executive Officer.

Mr. Ma Arthur On-hing, aged 45, is the executive Director. He has over 19 years of experience in investment, fund management and financial management. He is a member of the American Institute of Certified Public Accountants and is a US Certified Public Accountant. He obtained his bachelor degree in Accounting and Finance from San Francisco of State University, a master degree in Finance from Golden Gate University, and a master degree in Linguistics from Chinese University of Hong Kong.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Wang Jialian, aged 62, is the independent non-executive Director. Mr. Wang Jialian has worked in Tiajian Academy of Environmental Sciences for more than 33 years and mainly focused on researches relating to environmental protection and technical treatment for water pollution. He has been appointed as a consultant by various governmental authorities in the PRC focusing on environmental protection. He has obtained his bachelor degree of Chemistry in Nankai University in the PRC.

Mr. Wang Zhihua, aged 69, is the independent non-executive Director. Mr. Wang Zhihua graduated from Beijing University of Chemical Technology (previously named as Beijing College of Chemical Technology (北京化工學院)) with a major in Inorganic Chemistry, and has solid experience and expertise in device installation of chemical fertilizers.

Ms. Chan Sze Man, aged 33, is the independent non-executive Director. Ms. Chan holds a bachelor degree of business administration (majoring in accountancy) from the University of Science and Technology, Hong Kong. She is a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants and has over 10 years of experience in accounting and auditing for Hong Kong listed companies and private companies. She is currently the chief financial officer and the company secretary of a company listed on the Main Board of the Stock Exchange.

SENIOR MANAGEMENT

Mr. Shao Zhihui, aged 35, general manager of the Shengyi group. Mr. Shao joined Shengyi since 2007 and has been responsible for operation and administration matters, and the organisation of technology R&D for and business promotion of environmental technology business. Before joining Shengyi, he was a deputy chief engineer and deputy general manager of a Chinese private company that engaged in environmental protection business, including sulphur recovery and the treatment for, technology R&D on and application of wastewater and waste gas. Mr. Shao has over 10 years of experience in environmental technology R&D. He participated in various R&D projects and obtained a number of invention patents and utility model patents and was awarded the "Person of Innovation and Invention in High-Technology of Jiangsu Province" in 2009. Mr. Shao holds a Bachelor's degree in the related discipline majoring in mechanical design and manufacturing and automation profession.

Mr. Tam Chak Chi, aged 37, is the chief financial officer and the company secretory of the Group. Mr. Tam is responsible for the overall financial and accounting management of the Group. He holds a bachelor degree of commerce from the University of Toronto and has more than 13 years of experience in providing accounting, auditing and financial services in his various roles as senior positions for various private and listed companies (on the Main Board and the GEM of the Stock Exchange, and NASDAQ). He is a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountant and a member of the American Institute of Certified Public Accountants.

CORPORATE GOVERNANCE REPORT

INTRODUCTION

The Board and senior management are committed to maintaining a high standard of corporate governance practices with a view to enhancing the management efficiency of the Company as well as preserving the interests of the shareholders. The Board believes that high standards of corporate governance provide a framework and solid foundation for achieving, attracting and retaining the high standard and quality of the Group's management, promoting high standards of accountability and transparency and meeting the expectations of all of the Group's various stakeholders.

The Board is of the view that the Company has complied with all the code provisions as set out in the Code on Corporate Governance Practices to the Appendix 15 of the GEM Listing Rules throughout the year ended 31 December 2013, except for certain deviations as explained below. The Board will review the current practices at least annually, and make appropriate changes if considered necessary.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by the Directors on terms no less exacting than the required standard of dealing as set out in rules 5.48 to 5.67 of the GEM Listing Rules throughout the year ended 31 December 2013. Having made specific enquiry of all Directors, the Directors have complied such code of conduct and the required standard of dealings concerning securities transactions by the Directors throughout the year ended 31 December 2013.

BOARD OF DIRECTORS

The Board currently comprises:

Executive Directors:

Mr. Shan Xiaochang *(Chairman)*
Ms. Shan Zhuojun
Mr. Ma Arthur On-hing

Independent Non-executive Directors:

Mr. Wang Jialian
Mr. Wang Zhihua
Ms. Chan Sze Man

The Board is collectively responsible for the oversight of the management of the Company's business and affairs of the organisation with the objective of enhancing shareholder value. The Board approves and monitors the Group's business strategies and policies. The Board is also responsible to the shareholders of the Company for overseeing the Group's overall business, strategic decisions and directions, annual budget, and other major corporate matters. Besides, the Board delegates the management team with the authority and responsibility for the daily operations and administration of the Group.

The Board has normally scheduled four regular meetings a year each at quarterly interval and meets as and when required. In addition, the Directors have full access to information on the Group and independent professional advice whenever deemed necessary by the Director. During the year ended 31 December 2013, the Board held 9 meetings and the attendance of each Director is as follows:

	Number of meetings attended/ eligible to attend
Executive Directors:	
Mr. Shan Xiaochang	9/9
Ms. Shan Zhuojun	9/9
Mr. Ma Arthur On-hing	9/9
Independent non-executive Directors:	
Mr. Wang Jialian	9/9
Mr. Wang Zhihua	9/9
Ms. Chan Sze Man	9/9

Ms. Shan Zhuojun, the executive Director is a niece of Mr. Shan Xiaochang, the Chairman and the Chief Executive Officer. Save as disclosed above, there is no family or other material relationship among members of the Board.

The Directors enable, upon the reasonable request, to seek independent professional advice in appropriate circumstances, at the Company's expenses, in order to discharge their duties to the Company.

Appropriate insurance cover has been arranged in respect of legal action against its Directors.

All independent non-executive Directors are appointed for a specific term of not more than 2 years. All Directors are subject to re-election by shareholders at the annual general meeting following their appointment. At each annual general meeting one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to but not less than one-third, shall retire from office by rotation provided that every Director, including those appointed for a specific term, shall be subject to retirement by rotation at least once every three years. A retiring Director shall be eligible for re-election. The Company at the general meeting at which a Director retires may fill the vacated office. The Directors to retire by rotation shall include (so far as necessary to obtain the number required) any Director who wishes to retire and not to offer himself for re-election. Any further Directors so to retire shall be those who have been longest in office since their last re-election or appointment and so that as between persons who became or were last re-elected Directors on the same day those to retire shall (unless they otherwise agree among themselves) be determined by lot.

In compliance with rules 5.05(1) and (2) of the GEM Listing Rules, the Company has appointed three independent non-executive Directors, at least one of whom has appropriate professional qualifications or accounting or related financial management expertise. For a Director to be considered independent, the Board must determine that the Director does not have any direct or indirect material relationship with the Group. In determining the independence of the Directors, the Board follows the requirements set out in the GEM Listing Rule.

CORPORATE GOVERNANCE REPORT

CONTINUOUS PROFESSIONAL DEVELOPMENT

For the year ended 31 December 2013, all Directors have participated in continuous professional development, by attending conferences, seminars and in-house briefing, and giving talks and reading materials relevant to their duties, responsibilities and the Group's business in order to develop, refresh and update their knowledge and skills. Further, the Directors have received in-house trainings which covered corporate governance and listing rules and regulations.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Board is led by the Chairman and the Chief Executive Officer, Mr. Shan Xiaochang, who is responsible for corporate planning, business development strategy and overall direction of the Group. The senior management is responsible for the day-to-day operations of the Group under the leadership of Mr. Shan Xiaochang.

Code Provision A.2.1

The code provision stipulated that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

Mr. Shan Xiaochang, an executive Director, has served both roles as the Chairman and the Chief Executive Officer since September 2010. In view of the scale and operations of the Company and the fact that daily operations of the Group's business is delegated to the senior executives, the Board is of the view that this has not compromised accountability and independent decision-making. In addition, the audit committee of the Company composed exclusively of independent non-executive Directors and the independent non-executive Directors have free and direct access to the Company's external auditors and independent professional advisors when considered necessary.

Code Provision E.1.2

The code provision stipulated that the chairman of the Board should attend the annual general meeting of the Company.

Due to urgent business engagement, Mr. Shan Xiaochang, the Chairman of the Board, was unable to attend the annual general meeting of the Company held on 18 June 2013 (the "Meeting"). Mr. Ma Arthur On-hing, an executive Director, presided as the chairman at the Meeting in accordance with the articles of association of the Company.

REMUNERATION OF DIRECTORS

The remuneration committee of the Company currently comprises one executive Director, namely Mr. Shan Xiaochang, and two independent non-executive Directors, namely Ms. Chan Sze Man and Mr. Wang Zhihua. Ms. Chan Sze Man is the chairman of the remuneration committee of the Company. The main role and function of the remuneration committee include the formulation of the Company's remuneration policy, the approval or recommendation of remuneration packages for the Directors and senior management, and the review and approval of remuneration by reference to the performance of the individual and the Company as well as market practice and conditions.

The remuneration committee of the Company meets regularly to determine the policy for the remuneration of Directors and assess the performance of the executive Directors. During the year, one meeting of the remuneration committee has been held and all members of the remuneration committee of the Company attended the meeting.

Details of the Director's remuneration are set out in note 9 to the consolidated financial statements.

NOMINATION OF DIRECTORS

The nomination committee of the Company currently comprises one executive Director, namely Mr. Shan Xiaochang and two independent non-executive Directors, namely Mr. Wang Jialian and Ms. Chan Sze Man. Mr. Shan Xiaochang is the chairman of the nomination committee of the Company. The works carried out by the nomination committee members are set out below:

(a) to review the structure, size and composition (including the skills, knowledge and experience) and to make recommendations to the Board after such review;

(b) to assess the suitability and qualification of candidates put forward by the Chief Executive Officer and to become new board members and to report to the Board on their assessment;

(c) to assess the independence of independent non-executive Directors, having regard to the requirements under the GEM Listing Rules; and

(d) to make recommendations to the Board on relevant matters relating to the appointment of Directors and succession planning for Directors, in particular, the Chairman and the Chief Executive Officer.

One meeting of the nomination committee has been held during the year. All members of the nomination committee attended the meeting.

AUDITOR'S REMUNERATION

For the year ended 31 December 2013, the fees paid and payable to auditors in respect of audit services to the Group were approximately HK$620,000 (2012: HK$1.0 million). No other non-audit related services were performed by the auditors.

AUDIT COMMITTEE

The audit committee of the Company comprises three independent non-executive Directors, namely Mr. Wang Jialian, Mr. Wang Zhihua and Ms. Chan Sze Man with Ms. Chan Sze Man as the chairman.

The primary role and function of the audit committee of the Company are to oversee the relationship with the external auditors, to review the Group's preliminary quarterly results, interim results and annual financial statements and to monitor compliance with statutory and listing requirements, to engage independent legal or other advisers as it determines is necessary and to perform any investigations.

During the year ended 31 December 2013, five meetings of the audit committee of the Company have been held for the purpose of reviewing the Company's reports and accounts, and providing advice and recommendations to the Board, with the following attendances:

	Number of meetings attended/ eligible to attend
Mr. Wang Jialian	4/5
Mr. Wang Zhihua	5/5
Ms. Chan Sze Man	5/5

CORPORATE GOVERNANCE REPORT

ACCOUNTABILITY AND AUDIT

The Board acknowledged their responsibility for preparing the financial statements of the Group and ensured the financial statements have adopted the accounting principles generally accepted in Hong Kong and complied with the requirements of Hong Kong Financial Reporting Standards issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance and the GEM Listing Rules.

The statement of the auditor of the Company about their responsibilities on the financial statement of the Group is set out in the independent auditor's report.

INTERNAL CONTROL

The Board has overall responsibilities for the internal control system of the Group and for reviewing its effectiveness. The Board is also responsible for maintaining sound and effective internal control system to safeguard the interests of the shareholders and the assets of the Company. The Board will from time to time conduct a review of the Group's internal control systems. During the year under review, the Board has conducted a review of the effectiveness of the internal control system of the Group, covering financial, operational, compliance and risk management aspects of the Group.

REPORT OF THE DIRECTORS

The Directors present their annual report together with the audited consolidated financial statements of the Group for the year ended 31 December 2013.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. Details of the principal activities of the subsidiaries of the Company are set out in note 46 to the consolidated financial statements.

SEGMENT INFORMATION

An analysis of the Group's performance for the year by operating segments is set out in note 5 to the consolidated financial statements.

RESULTS AND DIVIDENDS

Results of the Group for the year ended 31 December 2013 are set out in the consolidated statement of profit or loss and other comprehensive income on pages 26 to 27.

The Directors do not recommend the payment of any dividends in respect of the year (2012: HK$Nil).

FINANCIAL SUMMARY

A summary of the results and assets and liabilities of the Group for the past five financial years is set out on page 3 of the annual report.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 15 to the consolidated financial statements.

INVESTMENT PROPERTIES

Details of movements in the investment properties of the Group are set out in note 17 to the consolidated financial statements.

SHARE CAPITAL

Details of the movements in the share capital of the Company during the year are set out in note 36 to the consolidated financial statements.

RESERVES

Details of the movements in reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 30.

DISTRIBUTABLE RESERVES

Under the provisions of the Companies Law of the Cayman Islands, the share premium is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

REPORT OF THE DIRECTORS

DIRECTORS

The Directors during the year and up to the date of this report are:

Executive directors:

Mr. Shan Xiaochang
Ms. Shan Zhuojun
Mr. Ma Arthur On-hing

Independent non-executive directors:

Mr. Wang Jialian
Mr. Wang Zhihua
Ms. Chan Sze Man

In accordance with article 108(A) of the articles of association of the Company, Mr. Shan Xiaochang and Ma Arthur On-hing shall retire by rotation at the forthcoming annual general meeting and being eligible, offer themselves for re-election.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Group are set out on pages 10 to 11 of this annual report.

DIRECTORS' SERVICE CONTRACTS

Each of Mr. Shan Xiaochang, Ms. Shan Zhuojun and Mr. Ma Arthur On-hing entered into an appointment letter with the Company on 10 September 2010. They have no fixed term of service with the Company save that they are subject to retirement by rotation in accordance with the articles of association of the Company.

Each of Mr. Wang Jialian, Mr. Wang Zhihua and Ms. Chan Sze Man entered into a 2-year service contract with the Company and they are subject to retirement by rotation in accordance with the articles of association of the Company.

Save as disclosed above, none of the Directors being proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not terminable by the Group within one year without payment of compensation other than statutory compensation.

CONFIRMATION OF INDEPENDENCE

The Company has received from each of its independent non-executive Directors the written confirmation of independence pursuant to rule 5.09 of the GEM Listing Rules. The Company based on such confirmation, considers that all of the independent non-executive Directors are independent.

DIRECTORS' INTEREST IN CONTRACTS

Save as disclosed under the section "Connected/Related Party Transactions" below and note 42 to the consolidated financial statements, none of the Directors had a significant beneficial interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

MATERIAL CONTRACTS WITH CONTROLLING SHAREHOLDERS

Save as disclosed under the section "Connected/Related Party Transactions" below, there is no material contract between the Group and the controlling shareholder or its subsidiaries during the year.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2013, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register maintained by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to rule 5.46 of the GEM Listing Rules, were as follows:

Long positions in ordinary shares and underlying shares of the Company

Name	Capacity	Number of Ordinary shares held	Number of underlying shares held	Total	Percentage of issued share capital of the Company
Mr. Shan Xiaochang	Interest of a controlled corporation	239,556,536 *(Note 1)*	–	239,556,536	55.48%
	Beneficial owner	–	35,000,000 *(Note 2)*	35,000,000	8.11%
		239,556,536	35,000,000	274,556,536	63.59%

Notes:

1. These shares are held by Zhongyu Group Holdings Limited. The entire issued share capital of Zhongyu Group Holdings Limited is beneficially owned by Mr. Shan Xiaochang, the Chairman, the Chief Executive Officer and the executive Director, who is therefore deemed to be interested in the shares held by Zhongyu Group Holdings Limited.

2. Total number of shares to be alloted and issued upon exercise in full of options under share option scheme adopted by the Company on 8 July 2002. These share options were conditionally granted to Mr. Shan Xiaochang, the Chairman, the Chief Executive Officer and the executive Director on 2 September 2011. Such grants were approved by independent shareholders of the Company at the extraordinary general meeting of the Company on 20 October 2011.

Save as disclosed above, none of the Directors nor chief executives of the Company had interests or short positions in any shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as at 31 December 2013.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2013, the register of substantial shareholders maintained by the Company pursuant to section 336 of the SFO shows that the following shareholders had notified the Company of relevant interests and short positions in the issued share capital of the Company:

Long positions in ordinary shares and underlying shares of the Company

Name	Capacity	Number of Ordinary shares held	Number of underlying shares held	Total	Percentage of issued share capital of the Company
Zhongyu Group Holdings Limited *(Note 1)*	Beneficial owner	239,556,536	–	239,556,536	55.48%
Mr. Shan Xiaochang *(Note 1)*	Interest of a controlled corporation	239,556,536	–	239,556,536	55.48%
	Beneficial owner	–	35,000,000 *(Note 2)*	35,000,000	8.11%
		239,556,536	35,000,000	274,556,536	63.59%
Ms. Wu Shuhua *(Note 3)*	Interest of spouse	239,556,536	35,000,000	274,556,536	63.59%
Tong Heng Company Limited	Beneficial owner	230,000,000	–	230,000,000	53.27%
Mr. Yan Qiyu *(Note 4)*	Interest of a controlled corporation	230,000,000	–	230,000,000	53.27%
Mr. Chan Ping Yee	Beneficial owner	73,675,000	–	73,675,000	17.06%
Ms. Liu Sau Wan *(Note 5)*	Interest of spouse	73,675,000	–	73,675,000	17.06%

Notes:

1. The entire issued share capital of Zhongyu Group Holdings Limited was solely and beneficially owned by Mr. Shan Xiaochang, the Chairman and the Chief Executive Officer and the executive Director, who is therefore deemed to be interested in the shares held by Zhongyu Group Holdings Limited.

2. Total number of shares to be alloted and issued upon exercise in full of options under share scheme adopted by the Company on 8 July 2002. These share options were conditionally granted for Mr. Shan Xiaochang, the Chairman, the Chief Executive Officer and the executive Director on 2 September 2011. Such grants were approved by independent shareholders of the Company at the extraordinary general meeting of the Company on 20 October 2011.

3. Ms. Wu Shuhua is the spouse of Mr. Shan Xiaochang and, under section 316 of the SFO, is therefore deemed to be interested in all 274,556,536 shares in which Mr. Shan Xiaochang is interested.

4. Mr. Yan Qiyu holds approximately 69.69% interest in Tong Heng Company Limited and therefore is deemed to be interested in the 230,000,000 shares in which Tong Heng Company Limited is interested.

5. Ms. Liu Sau Wan is the spouse of Mr. Chan Ping Yee and, under section 316 of the SFO, is therefore deemed to be interested in all 73,675,000 shares in which Mr. Chan Ping Yee is interested.

Save as disclosed above, the Company has not been notified of any other interests or short positions in the issued share capital of the Company as at 31 December 2013.

SHARE OPTIONS

The Company operates a share option scheme for the purpose of to enable the Company to grant share options to the eligible participants as incentives or rewards for their contribution to the Group. Eligible participants include any employees, directors, consultants or professional advisors, shareholders and suppliers or customers of the Group. The share option scheme became effective on 8 July 2002 (the "2002 Share Option Scheme") was terminated and a new share option scheme (the "New Share Option Scheme") was adopted at the annual general meeting held on 15 June 2012. Shares options granted prior to the expiry of the 2002 Share Option Scheme will continue to be valid and exercisable in accordance with the rules of the 2002 Share Option Scheme. The maximum number of shares of the Company which may be issued upon exercise of all options granted under its share option scheme or any other share option scheme adopted by the Company must not in aggregate exceed 30% of its issued share capital of the Company from time to time. As at 31 December 2013, the Company had 56,200,000 (31 December 2012: 60,200,000) share options outstanding under the 2002 Share Option Scheme, which represented approximately 13.9% (31 December 2012: 13.0%) of its issued share capital on that date. No share option were granted under the New Share Option Scheme.

The maximum number of share issued and which may fall to be issued upon exercise of the share options granted under the share option scheme to each participant in any 12-month period up to the date of grant must not exceed 1% of the shares in issue unless it is approved by shareholders (other than the grantees and/or their respective associates) in a general meeting of the Company. Any share option granted to a substantial shareholder or an independent non-executive director of the Company or to any of their associates, in excess of 0.1% of the shares in issue and with an aggregate value (based on the closing price of the shares at the date of grant) in excess of HK$5 million, in any 12-month period, are subject to shareholders' approval in general meeting of the Company.

The offer of a grant of share option under the share option scheme may be accepted, upon payment of a nominal consideration of HK$1 in total by the grantee. A share option granted under the share option scheme may be exercised in whole or in part in the manner provided in the share option scheme by a grantee giving notice in writing to the Company at any time during a period not exceed 10 years from the date an share option granted under the share option scheme is offered.

The exercise price of the share options is a price determined by the Board, in its absolute discretion, but in any case is not less than whichever is the highest of (1) the closing price of the Shares as stated in the Stock Exchange's daily quotation sheet on the date of grant, which must be a trading day; (2) the average closing price of the Shares as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of grant; and (3) the nominal value of the Shares.

The following table discloses movements in the Company's share options during the year:

Name or category of participant	Exercisable period	Exercise price per share of the Company HK$	Outstanding at 1 January 2013	Granted during the year	Exercised during the year	Forfeited during the year	Outstanding at 31 December 2013
Directors							
Mr. Shan Xiaochang	20 October 2011 to 1 September 2021	0.962	35,000,000	–	–	–	35,000,000
Employees (other than Directors)							
In aggregate	2 September 2011 to 1 September 2021	0.962	4,000,000	–	–	(4,000,000)	–
Others							
In aggregate	25 November 2010 to 24 November 2020	0.666	21,200,000	–	–	–	21,200,000
			60,200,000	–	–	(4,000,000)	56,200,000

REPORT OF THE DIRECTORS

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Saved as disclosed above and in note 37 to the consolidated financial statements, at no time during the year were the rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or chief executive of the Company or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or its subsidiaries a party to any arrangement to enable the Directors to acquire such rights or benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

CONNECTED/RELATED PARTY TRANSACTIONS

Saved as disclosed in announcement of the Company dated 9 May 2013, the circular of the Company dated 28 June 2013 and note 40 to the consolidated financial statements in relation to the disposal of Taraki Inc. and the amounts due to the Company, as the purchaser of this transaction is a company wholly-owned by Mr. Yang Ching Yau, who is a former director of the Company within the preceding 12 months, the transaction is defined as connected to the Company under the GEM Listing Rules.

The related party transactions are set out in note 42 to the consolidated financial statements. All the related party transactions did not constitute connected transactions or continuing connected transactions of the Company under Chapter 20 of the GEM Listing Rules which are required to comply with any of the reporting, announcement or independent shareholders' approval requirements under the GEM Listing Rule.

DIRECTORS' INTEREST IN COMPETING BUSINESS

Save as disclosed above, none of the Directors or the management shareholders of the Company (as defined in the GEM Listing Rules) had an interest in a business, which competes or may compete with the business of the Group.

EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUAL

Details of the emoluments of the Directors and the five highest paid individuals of the Group are set out in note 10 to the consolidated financial statements.

EMOLUMENT POLICY

The emolument policy of the employees of the Group is set out by the human resources department of the Group on the basis of their merits, qualifications and competence.

The emolument policy of the Directors is decided by the remuneration committee of the Company, having regard to the Company's operating results, individual duties and performance and comparable market statistics.

The Company has adopted a share options scheme as an incentive to the Directors and eligible employees. Details of the scheme are set out in note 37 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2013, the five largest customers accounted for approximately 30.9% (2012: approximately 41.2%) of the Group's total turnover and the five largest suppliers of the Group accounted for approximately 22.9% (2012: approximately 25.1%) of the Group's total purchases. The largest customer of the Group accounted for approximately 10.9% (2012: approximately 11.4%) of the Group's total turnover while the largest supplier accounted for approximately 10.5% (2012: approximately 12.0%) of the Group's total purchases.

None of the Directors, their associates, or any shareholders (which, to the knowledge of the Directors, owned more than 5% of the Company's share capital) had a beneficial interest in the Group's five largest customers and suppliers.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company during the year.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the articles of association of the Company, or laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

SUFFICIENCY OF PUBLIC FLOAT

Based on information publicly available to the Company and within the knowledge of the Directors as at the date of this annual report, the Company has maintained the prescribed public float under the GEM Listing Rules.

CORPORATE GOVERNANCE REPORT

Corporate governance report of the Company is set out on pages 12 to 16 of the annual report.

AUDITOR

The financial statements for the year ended 31 December 2012 were audited by Zenith CPA Limited ("Zenith").

On 27 January 2014, CCTH CPA Limited ("CCTH") was appointed by the Board to fill the casual vacancy following the resignation of Zenith. The financial statements for the year ended 31 December 2013 were audited by CCTH.

CCTH will retire and, being eligible, offer themselves for reappointment at the forthcoming annual general meeting of the Company.

On behalf of the Board

Shan Xiaochang
Chairman

31 March 2014

INDEPENDENT AUDITOR'S REPORT

CCTH CPA LIMITED
中正天恆會計師有限公司

TO THE SHAREHOLDERS OF
SUNRISE (CHINA) TECHNOLOGY GROUP LIMITED
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Sunrise (China) Technology Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 26 to 98, which comprise the consolidated statement of financial position as at 31 December 2013, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2013 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

OTHER MATTERS

The consolidated financial statements of the Group for the year ended 31 December 2012 were audited by another auditor who expressed a disclaimer of opinion on the consolidated financial statements on 28 March 2013 regarding the adoption of the going concern basis for the preparation of these financial statements.

CCTH CPA Limited
Certified Public Accountants
Hong Kong, 31 March 2014

Kwong Tin Lap
Practising Certificate Number: P01953

Unit 5-6, 7/F, Greenfield Tower, Concordia Plaza,
1 Science Museum Road, Tsim Sha Tsui,
Kowloon, Hong Kong

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2013

	Notes	2013 HK$'000	2012 HK$'000 (restated)
Continuing operations			
Revenue	6	**61,576**	50,523
Cost of sales		**(50,684)**	(35,984)
Gross profit		**10,892**	14,539
Other income and gains	6	**3,063**	21,822
Gain/(loss) on change in fair value of derivative financial instruments			
– Embedded derivatives of convertible loan notes	33	**2,910**	12,927
– Unlisted warrants	34	**(3,925)**	9,585
Loss on redemption of convertible loan notes	33	**(14,766)**	–
Selling and distribution expenses		**(2,301)**	(732)
Administrative expenses		**(36,543)**	(24,047)
Other operating expenses		**(28,447)**	(4,720)
Finance costs	7	**(15,191)**	(16,042)
(Loss)/profit before tax	8	**(84,308)**	13,332
Income tax	11	**4,497**	(362)
(Loss)/profit for the year from continuing operations		**(79,811)**	12,970
Discontinued operations			
Profit for the year from discontinued operations	12	**131**	2,957
(Loss)/profit for the year		**(79,680)**	15,927
Other comprehensive income/(expense)			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations			
Exchange differences arising during the year		**1,863**	3,689
Reclassification adjustments relating to foreign operations disposed of during the year		**(22,743)**	44
Other comprehensive (expense)/income for the year		**(20,880)**	3,733

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2013

	Notes	2013 HK$'000	2012 HK$'000 (restated)
Total comprehensive (expense)/income for the year		**(100,560)**	19,660
(Loss)/profit for the year from continuing operations attributable to:			
Owners of the Company		**(67,182)**	14,343
Non-controlling interests		**(12,629)**	(1,373)
		(79,811)	12,970
(Loss)/profit for the year from continuing and discontinued operations attributable to:			
Owners of the Company		**(52,169)**	9,051
Non-controlling interests		**(27,511)**	6,876
		(79,680)	15,927
Total comprehensive (expense)/income for the year attributable to:			
Owners of the Company		**(77,618)**	12,025
Non-controlling interests		**(22,942)**	7,635
		(100,560)	19,660
(Loss)/earnings per share	14		
From continuing and discontinued operations			
Basic		**HK(12.08) cents**	HK2.10 cents
Diluted		**N/A**	HK(0.94) cent
From continuing operations			
Basic		**HK(15.56) cents**	HK3.32 cents
Diluted		**N/A**	HK(0.03) cent

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2013

	Notes	2013 HK$'000	2012 HK$'000 (restated)
Non-current assets			
Property, plant and equipment	15	**81,681**	361,330
Prepaid land lease payments	16	**6,210**	25,600
Investment properties	17	**–**	34,569
Goodwill	18	**–**	–
Intangible assets	19	**–**	8,508
Available-for-sale investment	20	**–**	–
Prepayment for acquisition of property, plant and equipment		**–**	5,167
Deferred tax assets	35	**–**	3,303
		87,891	438,477
Current assets			
Inventories	21	**28,623**	104,773
Amounts due from customers for contract work	22	**–**	9,735
Trade receivables	23	**58,650**	290,464
Prepayments, deposits and other receivables	24	**28,524**	97,162
Restricted bank deposits	25	**–**	49,117
Bank balances and cash		**543**	93,822
		116,340	645,073
Assets classified as held for sale	26	**87,570**	–
		203,910	645,073
Current liabilities			
Trade payables	27	**16,729**	273,547
Other payables and accruals	28	**19,910**	229,131
Bank and other borrowings	29	**–**	134,567
Amount due to noteholder	30	**45,970**	–
Amounts due to directors	31	**–**	3,310
Amounts due to non-controlling interests of subsidiaries	32	**–**	65,121
Convertible loan notes and embedded derivatives	33	**–**	30,926
Tax payable		**98**	4,780
		82,707	741,382
Liabilities directly associated with assets classified as held for sale	26	**108,189**	–
		190,896	741,382
Net current assets/(liabilities)		**13,014**	(96,309)
Total assets less current liabilities		**100,905**	342,168

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2013

	Notes	2013 HK$'000	2012 HK$'000 (restated)
Non-current liabilities			
Unlisted warrants	34	**9,076**	5,151
Deferred tax liabilities	35	**950**	12,391
		10,026	17,542
Net assets		**90,879**	324,626
Capital and reserves			
Share capital	36	**4,318**	4,318
Reserves		**58,195**	135,813
Equity attributable to owners of the Company		**62,513**	140,131
Non-controlling interests		**28,366**	184,495
Total equity		**90,879**	324,626

The consolidated financial statements on pages 26 to 98 were approved and authorised for issue by the Board of Directors on 31 March 2014 and are signed on its behalf by:

Shan Xiaochang

Shan Zhuojun

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2013

	Attributable to owners of the Company										
	Share capital HK$'000	Share premium account HK$'000	Asset revaluation reserve HK$'000	Statutory reserve HK$'000 *(note (a))*	Share option reserve HK$'000	Merger reserve HK$'000 *(note (b))*	Exchange fluctuation reserve HK$'000	Accumulated losses HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2012	4,318	165,417	11,293	11,891	25,830	2,441	20,335	(113,419)	128,106	153,397	281,503
Profit for the year	–	–	–	–	–	–	–	9,051	9,051	6,876	15,927
Other comprehensive income for the year	–	–	–	–	–	–	2,974	–	2,974	759	3,733
Total comprehensive income/ for the year	–	–	–	–	–	–	2,974	9,051	12,025	7,635	19,660
Share options forfeited	–	–	–	–	(1,258)	–	–	1,258	–	–	–
Dividend paid to non-controlling interest of a subsidiary	–	–	–	–	–	–	–	–	–	(10,252)	(10,252)
Transfer from retained earnings	–	–	–	937	–	–	–	(937)	–	–	–
Acquisition of subsidiaries *(Note 39)*	–	–	–	–	–	–	–	–	–	33,715	33,715
At 31 December 2012 and 1 January 2013 (restated)	4,318	165,417	11,293	12,828	24,572	2,441	23,309	(104,047)	140,131	184,495	324,626
Loss for the year	–	–	–	–	–	–	–	(52,169)	(52,169)	(27,511)	(79,680)
Other comprehensive (expense)/ income for the year	–	–	–	–	–	–	(20,736)	(4,713)	(25,449)	4,569	(20,880)
Total comprehensive expense for the year	–	–	–	–	–	–	(20,736)	(56,882)	(77,618)	(22,942)	(100,560)
Decrease in non-controlling interests arising on disposal of subsidiaries *(Note 40)*	–	–	–	–	–	–	–	–	–	(133,187)	(133,187)
Share options forfeited	–	–	–	–	(2,423)	–	–	2,423	–	–	–
Transfer to retained earnings on disposal of a subsidiary	–	–	(11,293)	(12,013)	–	(2,441)		25,747	–	–	–
At 31 December 2013	4,318	165,417	–	815	22,149	–	2,573	(132,759)	62,513	28,366	90,879

Notes:

(a) Statutory reserve

Pursuant to the articles of association of the group entities in the People's Republic of China ("PRC" or "Mainland China"), appropriations are made from the retained earnings to certain statutory reserves, based on a percentage of profit in accordance with the rules and regulations in Mainland China. Such appropriations to reserves would be made only with approval from the board of directors of those group entities.

(b) Merger reserve

Merger reserve of the Group at 1 January 2012, 31 December 2012 and 1 January 2013 represents the difference between the nominal value of the shares issued by the Company and the share capital and share premium of a subsidiary acquired through an exchange of shares in 2002.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2013

	Notes	2013 HK$'000	2012 HK$'000 (restated)
Cash flows from operating activities			
(Loss)/profit for the year		**(79,680)**	15,927
Adjustments for:			
Tax charge recognised in profit or loss	11	**70**	7,496
Bank interest income		**(697)**	(1,262)
Finance costs		**17,789**	25,820
Depreciation of property, plant and equipment		**20,934**	19,951
Amortisation of intangible assets		**6,074**	8,247
Amortisation of prepaid land lease payments		**428**	417
Loss/(gain) on change in fair value of derivative financial instruments		**1,015**	(22,512)
Impairment loss on:			
Inventories		**12,508**	–
Trade receivables		**16,907**	10,923
Other receivables		**33,193**	–
Property, plant and equipment		**–**	1,761
Goodwill		**–**	1,430
Loss on redemption of convertible loan notes		**14,766**	–
Loss on disposal of property, plant and equipment		**908**	–
Write-down of inventories		**5,868**	2,552
Reversal of impairment loss on trade receivables		**(2,362)**	–
Gain on change in fair value of investment properties		**–**	(3,045)
Gain on disposal of subsidiaries		**(18,460)**	(5,715)
Gain on bargain purchase		**–**	(15,964)
Operating cash flows before movements in working capital		**29,261**	46,026
(Increase)/decrease in inventories		**(14,519)**	1,585
Increase in amounts due from customers for construction contracts		**(20,428)**	(2,586)
Increase in trade receivables		**(43,513)**	(31,280)
Increase in prepayments, deposits and other receivables		**(14,825)**	(12,256)
Increase/(decrease) in trade payables		**4,232**	(155)
Increase in accruals and other payables		**26,376**	41,215
(Decrease)/increase in amounts due to directors		**(1,200)**	2,157
Cash (used in)/generated from operations		**(34,616)**	44,706
Income taxes paid		**(2,743)**	(7,667)
Net cash (used in)/generated from operating activities		**(37,359)**	37,039
Cash flows from investing activities			
Purchases of property, plant and equipment		**(42,661)**	(63,874)
Proceeds from disposal of property, plant and equipment		**–**	49
Acquisition of subsidiaries	39	**(19,127)**	880
Disposal of subsidiaries	40	**53,996**	1,765
Deposit received on disposal of subsidiaries	26	**21,000**	–
Decrease in prepayments for acquisition of property, plant and equipment		**–**	14,480
Increase in restricted bank deposits		**(45,916)**	(20,672)
Interest received		**697**	1,262
Net cash used in investing activities		**(32,011)**	(66,110)

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2013

	Notes	2013 HK$'000	2012 HK$'000 (restated)
Cash flows from financing activities			
Interest paid		**(15,433)**	(20,879)
New loan obtained		**–**	30,000
Repayment of bank loans		**(52,102)**	(16,619)
Repayment of other loan		**(30,000)**	–
Advances from non-controlling interests of subsidiaries		**76,457**	7,942
Net cash (used in)/generated from financing activities		**(21,078)**	444
Net decrease in cash and cash equivalents		**(90,448)**	(28,627)
Cash and cash equivalents at beginning of the year		**93,822**	121,505
Effects of exchange rate changes		**353**	944
Cash and cash equivalents at end of the year		**3,727**	93,822
Analysis of cash and cash equivalents at end of the year:			
Bank balances and cash		**543**	**93,822**
Bank balances and cash included in assets reclassified as held for sale	26	**3,184**	**–**
		3,727	**93,822**

1. GENERAL

Sunrise (China) Technology Group Limited (the "Company") is a limited liability company incorporated in the Cayman Islands, and the issued shares of which are listed on The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The address of the registered office and principal place of business of the Company are disclosed in the corporate information section of the annual report.

During the year, the Company and its subsidiaries (collectively referred to as the "Group") were involved in the following principal activities:

- environmental related businesses
- manufacture and sales of loudspeaker systems

The consolidated financial statements are presented in Hong Kong dollar ("HK$"), which is the same as the functional currency of the Company.

In the opinion of the directors, the immediate holding company and ultimate holding company of the Company is Zhongyu Group Holdings Limited, which is incorporated in the British Virgin Islands.

Restatements of comparative figures

(a) Acquisition of subsidiary in prior year

On 10 December 2012, the Group acquired 51% equity interest in a subsidiary, Heilongjiang Province Shengyan New Energy Development Limited ("Shengyan"), which gave rise to a gain on bargain purchase amounted to HK$3,942,000 recognised in the profit or loss in respect of the year ended 31 December 2012. During the current year (which is less than one year from the acquisition date), Shengyan received subsidies from the PRC local government amounted to HK$23,572,000, relating to the manufacture and sales of goods transacted prior to the date of acquisition, which has not been recognised at the acquisition date. In accordance with HKFRS 3 "Business combinations", the Group has retrospectively adjusted these subsidies to reflect new information obtained about facts and circumstances that existed as of the acquisition date, which has resulted in the increase of the gain on bargain purchase to HK$15,964,000 and the following impacts on the consolidated financial statements of the Group for the year ended 31 December 2012. The related comparative figures of the consolidated financial statements for the current year have been restated accordingly.

	Year ended 31 December 2012		
	As originally stated HK$'000	Adjustment HK$'000	As restated HK$'000
Profit for the year	3,905	12,022	15,927
(Loss)/profit for the year attributable to:			
Owners of the Company	(2,971)	12,022	9,051
Non-controlling interests	6,876	–	6,876
	3,905	12,022	15,927

1. *GENERAL (continued)*

Restatements of comparative figures (continued)

(a) *Acquisition of subsidiary in prior year (continued)*

	As at 31 December 2012		
	As originally stated HK$'000	Adjustment HK$'000	As restated HK$'000
Assets			
Prepayments, deposits and other receivables	73,590	23,572	97,162
Total equity			
Equity attributable to owners of the Company	128,109	12,022	140,131
Non-controlling interests	172,945	11,550	184,495

The aforementioned adjustment of government subsidies has not resulted in any impact on the consolidated financial statements of the Group for the year ended 31 December 2011.

(b) *Discontinued operations*

In the current year, the directors of the Company have determined to discontinue the business of manufacture and sales of loudspeaker systems *(Note 12)*, accordingly the consolidated statement of profit or loss and other comprehensive income and the consolidated statement of cash flows are presented to reflect the discontinued operations. Prior year's comparative figures have been restated to conform with the current year's presentation.

2. *APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")*

New and revised HKFRSs applied in current year

The Group has applied the first time in the current year the following new and revised HKFRSs:

Amendments to HKFRSs	Annual improvements to HKFRSs 2009-2011 Cycle
Amendments to HKFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income
HKFRS 10	Consolidated Financial Statements
HKFRS 11	Joint Arrangements
HKFRS 12	Disclosure of Interests in Other Entities
HKFRS 13	Fair Value Measurement
HKAS 19 (as revised in 2011)	Employee Benefits
HKAS 27 (as revised in 2011)	Separate Financial Statements
HKAS 28 (as revised in 2011)	Investments in Associate and Joint Ventures
HK(IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine

Except as described below, the application of the new and revised HKFRSs in the current year had no material impact on the Group's financial statements for the current and prior years.

2. *APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)*

HKFRS 13 "Fair Value Measurement"

The Groups has applied HKFRS 13 for the first time in the current year. HKFRS 13 establishes a single source of guidance for, and disclosures about, fair value measurements. The scope of HKFRS 13 is broad: the fair value measurement requirements of HKFRS 13 apply to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except for share-based payment transactions that are within the scope of HKFRS 2 "Share-based Payment", leasing transactions that are within the scope of HKAS 17 "Leases", and measurements that have some similarities to fair value but are not fair value (e.g. net realisable value for the purposes of measuring inventories or value in use for impairment assessment purposes).

HKFRS 13 defines the fair value of an asset as the price that would be received to sell an asset (or paid to transfer a liability, in the case of determining the fair value of a liability) in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under HKFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. Also, HKFRS 13 includes extensive disclosure requirements.

HKFRS 13 requires prospective application. In accordance with the transitional provisions of HKFRS 13, the Group has not made any new disclosures required by HKFRS 13 for the 2012 comparative period. Other than the additional disclosures, the application of HKFRS 13 has not had any material impact on the amounts recognised in the consolidated financial statements.

Amendments to HKAS 1 "Presentation of Items of Other Comprehensive Income"

The Group has applied the amendments to HKAS 1 "Presentation of Items of Other Comprehensive Income". Upon the adoption of the amendments to HKAS 1, the consolidated statement of comprehensive income is renamed as the consolidated statement of profit or loss and other comprehensive income. Furthermore, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of the amendments to HKAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

New and revised HKFRSs in issue but not yet effective

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective.

Amendments to HKFRSs	Annual improvements to HKFRSs 2010-2012 Cycle[4]
Amendments to HKFRSs	Annual improvements to HKFRSs 2011-2013 Cycle[2]
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[3]
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities[1]
Amendments to HKAS 19	Defined Benefit Plans: Employee Contributions[2]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[1]
Amendments to HKAS 36	Recoverable Amount Disclosures for Non-Financial Assets[1]
Amendments to HKAS 39	Novation of Derivatives and Continuation of Hedge Accounting[1]
HKFRS 9	Financial Instruments[3]
HKFRS 14	Regulatory Deferral Accounts[5]
HK(IFRIC) – Int 21	Levies[1]

1 Effective for annual periods beginning on or after 1 January 2014
2 Effective for annual periods beginning on or after 1 July 2014
3 Available for application – the mandatory effective date will be determined when the outstanding phases of HKFRS 9 are finalised
4 Effective for annual periods beginning on or after 1 July 2014, with limited exceptions
5 Effective for first time annual HKFRS financial statements beginning on or after 1 January 2016

HKFRS 9 Financial Instruments

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of HKFRS 9 are described as follows:

- All recognised financial assets that are within the scope of HKAS 39 "Financial Instruments: Recognition and Measurement" are subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair value at the end of subsequent reporting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

2. *APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)*

HKFRS 9 Financial Instruments (continued)

- With regard to the measurement of financial liabilities designed as at fair value through profit and loss, HKFRS 9 requires that amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit and loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in fair value of the financial liability designated as fair value through profit or loss was presented in profit and loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2015, with earlier application permitted.

The directors of the Company anticipate that the adoption of HKFRS 9 in the future may have significant impacts on amounts reported in respect of the Group's financial assets and financial liabilities. Regarding the Group's financial assets and liabilities, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

The directors of the Company anticipate that the application of the other new and revised HKFRSs in issue but not yet effective will have no material impact on the consolidated financial statements.

3. *SIGNIFICANT ACCOUNTING POLICIES*

Statement of compliance

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in the exchange for goods.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2, leasing transactions that are within the scope of HKAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 or value in use in HKAS 36.

3. *SIGNIFICANT ACCOUNTING POLICIES (continued)*

Basis of preparation (continued)

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

– Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

– Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

– Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved when the Company:

– has power over the investee;

– is exposed, or has rights, to variable returns from its involvement with the investee; and

– has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

– the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;

– potential voting rights held by the Group, other vote holders or other parties;

– rights arising from other contractual arrangements; and

– any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

3. *SIGNIFICANT ACCOUNTING POLICIES (continued)*

Basis of consolidation (continued)

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations (continued)

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

– deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 "Income Taxes" and HKAS 19 "Employee Benefits" respectively;

– liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 "Share-based Payment" at the acquisition date (see the accounting policy below); and

– assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another HKFRS.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, and additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

3. *SIGNIFICANT ACCOUNTING POLICIES (continued)*

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see the accounting policy above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro-rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent period.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of discounts and sales related taxes.

Sale of goods

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

– the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;

– the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;

– the amount of revenue can be measured reliably;

– it is probable that the economic benefits associated with the transaction will flow to the Group; and

– the cost incurred or to be incurred in respect of the transaction can be measured reliably.

Construction contract

The Group's policy for recognition of revenue from construction contracts is described in the accounting policy for construction contracts below.

Service income

Service income, which represents income from after-sale services of the Group's sales, is recognised when the services have been rendered by the Group.

Rental income

The Group's accounting policy for recognition of revenue from operating leases is described in the accounting policy for leasing below.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Interest income

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Construction contracts

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the end of the reporting period, measured based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contact costs will exceed total contract revenue, the expected loss is recognised as expense immediately.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as amounts due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as the amounts due to customers for contract work. Amounts received before the related work is performed are included in the consolidated statement of financial position, as a liability, as advances received. Amounts billed for work performed but not yet paid by the customer are included in the consolidated statement of financial position under trade receivables.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant leases.

Leasehold land for own use

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

3. *SIGNIFICANT ACCOUNTING POLICIES (continued)*

Leasing (continued)

Leasehold land for own use (continued)

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid land lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. HK$) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of exchange fluctuation reserve.

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Government grants and subsidies

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred revenue in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Government grants and subsidies (continued)

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Government subsidies relating to the Group's manufacture and sale of goods are recognised as income when it is probable that the economic benefits associated with the subsidies will flow to the Group and the related goods have been sold.

Retirement benefit costs

Payments to defined contribution retirement benefit schemes are charged as an expense when employees have rendered services entitling them to the contributions.

Share-based payment arrangements

Share-based payment transactions of the Company

For grants of share options that are conditional upon satisfying specified vesting conditions, the fair value of services received is determined by reference to the fair value of share options granted at the date of grant and is expensed on straight-line basis over the vesting period, with a corresponding increase in equity (share option reserve).

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share option reserve.

For share options that vest immediately at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss.

When share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to retained earnings.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax as reported in the consolidated statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

3. *SIGNIFICANT ACCOUNTING POLICIES (continued)*

Taxation (continued)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

Property, plant and equipment

Property, plant and equipment (other than construction in progress as described below), including buildings held for use in the production or for administrative purposes, are stated in the consolidated statement of financial position at cost or valuation less subsequent accumulated depreciation and accumulated impairment losses, if any.

Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Changes in the value of the revalued asset are dealt with as movements in the asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to profit or loss. Any subsequent revaluation surplus is credited to profit or loss to the extent of the deficit previously charged. An annual transfer from the asset revaluation reserve to retained earnings is made for the difference between the depreciation based on the revalued carrying amount of an asset and the depreciation based on the asset's original cost. On disposal of a revalued asset, the relevant portion of the asset revaluation reserve realised in respect of previous valuations is transferred to retained earnings as a movement in reserves.

Depreciation is recognised so as to write off the cost or valuation of assets (other than construction in progress) less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Construction in progress includes property, plant and equipment in the course of construction for production or for administrative purposes and are carried at cost less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy.

Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

3. *SIGNIFICANT ACCOUNTING POLICIES (continued)*

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation. Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value. Gains and losses arising from changes in the fair value of investment properties are included in profit or loss in the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

Intangible assets

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, if any. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Internally-generated intangible assets – research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

– the technical feasibility of completing the intangible asset so that it will be available for use or sale;

– the intention to complete the intangible asset and use or sell it;

– the ability to use or sell the intangible asset;

– how the intangible asset will generate probable future economic benefits;

– the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and

– the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

3. *SIGNIFICANT ACCOUNTING POLICIES (continued)*

Intangible assets (continued)

Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gain and losses arising from derecognition of an intangible asset, which is measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset (or disposal group) and its sale is highly probable. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

Impairment losses on tangible and intangible assets other than goodwill

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

3. *SIGNIFICANT ACCOUNTING POLICIES (continued)*

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overhead. Net realisable value is based on estimated selling price less the estimated costs of completion and costs necessary to make the sale.

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into loans and receivables and available for sale ("AFS") financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

3. *SIGNIFICANT ACCOUNTING POLICIES (continued)*

Financial assets (continued)

AFS financial assets

AFS financial assets are non-derivatives that are either designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

Equity and debt securities held by the Group that are classified as AFS financial assets and are traded in an active market are measured at fair value at the end of each reporting period. Changes in the carrying amount of AFS monetary financial assets relating to interest income calculated using the effective interest method and dividends on AFS equity investments are recognised in profit or loss. Other changes in the carrying amount of AFS financial assets are recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss (see the accounting policy in respect of impairment loss on financial assets below).

Dividends on AFS equity investments are recognised in profit or loss when the Group's right to receive the dividends is established.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment losses at the end of each reporting period (see the accounting policy in respect of impairment loss on financial assets below).

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, restricted bank deposits and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Impairment loss on financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

– significant financial difficulty of the issuer or counterparty; or

– breach of contract, such as default or delinquency in interest and principal payments; or

– it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or

– the disappearance of an active market for that financial asset because of financial difficulties.

3. *SIGNIFICANT ACCOUNTING POLICIES (continued)*

Financial assets (continued)

Impairment loss on financial assets (continued)

For certain categories of financial assets, such as trade and other receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the credit period, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods (see accounting policy below).

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When trade and other receivables are considered uncollectible, they are written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity investments carried at fair value, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. In respect of AFS debt investments, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

In respect of AFS equity investments carried at cost less impairment loss, impairment loss recognised will not be reversed in subsequent period.

3. *SIGNIFICANT ACCOUNTING POLICIES (continued)*

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Convertible loan notes

Convertible loan notes issued by the Group that contain both liability and conversion option components are classified separately into their respective items on initial recognition. Conversion option that will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is a conversion option derivative. At the date of issue, the conversion derivative is recognised at fair value, any excess of proceeds from the notes over the amount initially recognised as the derivative component is recognised as liability.

In subsequent periods, the liability component of the convertible loan notes is carried at amortised cost using the effective interest method, until extinguished on conversion or maturity. The conversion option derivative is measured at fair value with changes in fair value recognised in profit or loss.

When the convertible loan notes are converted, the carrying amount of the liability portion together with the fair value of the conversion derivative at the time of conversion are transferred to share capital and share premium as consideration for the shares issued. When the convertible loan notes are redeemed, the difference between the redemption amount and the carrying amounts of both components is recognised in profit or loss.

Transaction costs that relate to the issue of the convertible loan notes are allocated to the liability and conversion option components in proportion to the allocation of the proceeds. Transaction costs relating to the conversion option derivative is recognised in profit or loss immediately. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible loan notes using the effective interest method.

Financial liabilities at fair value through profit or loss ("FVTPL")

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL on initial recognition.

3. *SIGNIFICANT ACCOUNTING POLICIES (continued)*

Financial liabilities and equity instruments (continued)

Financial liabilities at fair value through profit or loss ("FVTPL") (continued)

A financial liability other than a financial liability held for trading may be designed as at FVTPL upon initial recognition if:

– such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

– the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

– it forms part of a contract containing one or more embedded derivatives, and HKAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL (including embedded derivatives of convertible loan notes and unlisted warrants) are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability, if any.

Other financial liabilities

Other financial liabilities (including trade and other payables, bank and other borrowings, amount due to noteholder, amounts due to directors, amounts due to non-controlling interests of subsidiaries and convertible loan notes) are subsequently measured at amortised cost, using the effective interest method.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

4. *SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES*

The preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities, Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

The major judgments, estimates and assumptions that have the most significant effect on the amounts recognised in the financial statements and have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are set out below:

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The calculation of the fair value less costs to sell is based on available information from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Useful life and residual value of property, plant and equipment

The Group determines the depreciation amount of property, plant and equipment based on the estimated useful life and residual value, which are reviewed at the end of each reporting period. The principal assumptions for the Group's estimation of the useful life and residual value include those related to the mode of operations, government regulations and scrap value of property, plant and equipment in future.

Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and costs to make the sale. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of changes in customer taste and competitor actions in response to severe industry cycle. The directors reassess the estimations at the end of each reporting period.

Impairment of trade and other receivables

The Group makes impairment of trade and other receivables based on an assessment of the recoverability of the receivables. This assessment is based on the credit quality of the customers and other debtors and past experience of debt settlements and current market conditions. The directors reassess the impairment at the end of each reporting period.

Fair value of unlisted warrants

The unlisted warrants are carried at fair value in the consolidated statement of financial position with changes in fair value recognised in profit or loss. In estimating the fair value of the unlisted warrants, the Group uses valuation performed by professorial valuers which is based on various inputs and estimates with reference to quoted market rates and adjusted for specific features of the unlisted warrants. If the input and estimates applied in the valuation are different, the carrying amount the unlisted warrants may change.

4. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES (continued)

Control in a subsidiary, Heilongjiang Province Shengyan New Energy Development Limited ("Shengyan")

The Group has gained control over Shengyan on 10 December 2012 and the Group's 51% interest in Shengyan is accounted for and consolidated into the consolidated financial statements of the Group as a subsidiary as from that date. Key judgments adopted in concluding that the Group has obtained control over Shengyan are as follows:

– The Group has consistently and regularly held a majority of the voting rights exercised at shareholders' meetings of Shengyan; and

– The shareholding of other non-controlling interests is dispersed and the chance of all other shareholders getting together to vote against the Group is remote.

5. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into the following reportable operating segments based on their products and services:

Continuing operations: Environmental related businesses

Discontinued operations: Manufacture and sales of loudspeaker systems

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of adjusted profit/(loss) before tax. The adjusted profit/(loss) before tax is measured consistently with the Group's profit/(loss) before tax except that interest income, gain on change in fair value of embedded derivatives of convertible loan notes and unlisted warrants, loss on redemption of convertible loan notes, finance costs, as well as other head office and corporate expenses are excluded from such measurement.

Segment assets exclude unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

5. *OPERATING SEGMENT INFORMATION (continued)*

Year ended 31 December 2013

	Environmental related businesses HK$'000	Manufacture and sales of loudspeaker systems HK$'000	Total HK$'000
Segment revenue:			
Sales to external customers	61,576	449,101	510,677
Segment results	(29,086)	(11,489)	(40,575)
Reconciliation:			
Interest income			697
Gain/(loss) on change in fair value of:			
– embedded derivatives of convertible loan notes			2,910
– unlisted warrants			(3,925)
Finance costs			(17,789)
Loss on redemption of convertible loan notes			(14,766)
Corporate and other unallocated expenses			(6,162)
Loss before tax			(79,610)
Segment assets	165,396	–	165,396
Reconciliation:			
Corporate and other unallocated assets			38,835
Assets classified as held for sale			87,570
Total assets			291,801
Segment liabilities	90,080	–	90,080
Reconciliation:			
Liabilities directly associated with assets classified as held for sale			108,189
Corporate and other unallocated liabilities			2,653
Total liabilities			200,922
Other segment information:*			
Write-down of inventories	399	5,469	5,868
Impairment loss on inventories	12,508	–	12,508
Impairment loss on trade receivables	15,939	968	16,907
Impairment loss on other receivables	–	33,193	33,193
Depreciation and amortisation	15,964	11,472	27,436
Capital expenditure#	1,654	41,007	42,661

* Included in the "Segment results" disclosed above.

\# Capital expenditure consists additions to property, plant and equipment and excluding assets from the acquisition of subsidiaries.

5. *OPERATING SEGMENT INFORMATION (continued)*

Year ended 31 December 2012

	Environmental related businesses HK$'000	Manufacture and sales of loudspeaker systems HK$'000	Total HK$'000
Segment revenue:			
Sales to external customers	50,523	825,054	875,577
Segment results	1,925	23,250	25,175
Reconciliation:			
Interest income			1,262
Gain on change in fair value of:			
– embedded derivatives of convertible loan notes			12,927
– unlisted warrants			9,585
Gain on bargain purchase			15,964
Finance costs			(25,820)
Corporate and other unallocated expenses			(15,670)
Profit before tax			23,423
Segment assets	261,792	766,132	1,027,924
Reconciliation:			
Corporate and other unallocated assets			55,626
Total assets			1,083,550
Segment liabilities	200,401	486,768	687,169
Reconciliation:			
Corporate and other unallocated liabilities			71,755
Total liabilities			758,924
Other segment information:*			
Write-down of inventories	–	2,552	2,552
Impairment loss on trade receivables	4,448	6,475	10,923
Impairment loss on goodwill	270	1,160	1,430
Impairment loss on property, plant and equipment	–	1,761	1,761
Gain on change in fair value of investment properties	–	3,045	3,045
Depreciation and amortisation	9,850	18,765	28,615
Capital expenditure#	2,517	61,317	63,834

* Included in the "Segment results" disclosed above.

Capital expenditure consists additions to property, plant and equipment and excluding assets from the acquisition of subsidiaries.

5. *OPERATING SEGMENT INFORMATION (continued)*

Geographical information

(a) Revenue from external customers

	2013 HK$'000	2012 HK$'000
Mainland China	**237,011**	379,705
United States of America	**86,512**	148,781
Germany	**111,425**	209,763
Thailand	**763**	2,711
Other countries	**74,966**	134,617
	510,677	875,577

The revenue information above is based on the locations of the customers.

(b) Non-current assets

	2013 HK$'000	2012 HK$'000
Hong Kong	**–**	385
Mainland China	**87,891**	421,114
	87,891	421,499

The non-current assets information is based on the locations of the assets and excludes goodwill, intangible assets, prepayment for acquisition of property, plant and equipment and deferred tax assets.

Information about a major customer

During the year ended 31 December 2013, the Group had made sales to a single customer, who contributed over 10% of the Group's revenue, of HK$55,546,000 (2012: HK$99,542,000) for the year.

6. *REVENUE, OTHER INCOME AND GAINS*

Revenue, which is also the Group's turnover recognised for the year, represents the net invoiced value of goods sold, after allowances for returns, trade discounts and sales related taxes; income from construction contracts; and income from of maintenance services rendered.

6. *REVENUE, OTHER INCOME AND GAINS (continued)*

	2013			2012		
	Continuing operations HK$'000	**Discontinued operations HK$'000**	**Total HK$'000**	Continuing operations HK$'000	Discontinued operations HK$'000	Total HK$'000
Revenue						
Sales of goods	**28,501**	**423,783**	**452,284**	30,106	777,795	807,901
Income from construction contracts	**33,075**	**–**	**33,075**	20,417	–	20,417
Maintenance services income	**–**	**25,318**	**25,318**	–	47,259	47,259
Total revenue	**61,576**	**449,101**	**510,677**	50,523	825,054	875,577
Other income						
Bank interest income	**372**	**325**	**697**	15	1,247	1,262
Mould income	**–**	**157**	**157**	–	3,514	3,514
Gross rental income on investment properties	**–**	**2,538**	**2,538**	–	4,676	4,676
Sales of scrap materials	**–**	**348**	**348**	37	1,179	1,216
Service income	**200**	**525**	**725**	–	2,619	2,619
Others	**129**	**2,782**	**2,911**	210	1,458	1,668
	701	**6,675**	**7,376**	262	14,693	14,955
Gains						
Exchange gains, net	**–**	**–**	**–**	(119)	5,550	5,431
Gain on change in fair value of investment properties *(Note 17)*	**–**	**–**	**–**	–	3,045	3,045
Gain on bargain purchase *(Note 39)*	**–**	**–**	**–**	15,964	–	15,964
Gain on disposal of subsidiaries *(Note 40b)*	**–**	**–**	**–**	5,715	–	5,715
Reversal of impairment loss on trade receivables	**2,362**	**–**	**2,362**	–	–	–
	2,362	**–**	**2,362**	21,560	8,595	30,155
Total other income and gains	**3,063**	**6,675**	**9,738**	21,822	23,288	45,110

7. *FINANCE COSTS*

	2013			2012		
	Continuing operations HK$'000	**Discontinued operations HK$'000**	**Total HK$'000**	Continuing operations HK$'000	Discontinued operations HK$'000	Total HK$'000
Interest on:						
– Bank borrowings wholly repayable within five years	**–**	**2,231**	**2,231**	–	9,555	9,555
– Loan from a third party *(Note 29)*	**6,457**	**–**	**6,457**	8,020	–	8,020
– Convertible loan notes *(Note 33)*	**6,826**	**–**	**6,826**	7,970	–	7,970
– Discounted bills	**–**	**367**	**367**	–	223	223
– Amount due to noteholder *(Note 30)*	**1,841**	**–**	**1,841**	–	–	–
Overdue interest on convertible loan notes	**67**	**–**	**67**	52	–	52
	15,191	**2,598**	**17,789**	16,042	9,778	25,820

8. *(LOSS)/PROFIT BEFORE TAX*

The Group's (loss)/profit before tax is arrived at after charging/(crediting):

	2013			2012		
	Continuing operations HK$'000	**Discontinued operations HK$'000**	**Total HK$'000**	Continuing operations HK$'000	Discontinued operations HK$'000	Total HK$'000
Cost of inventories sold	**25,366**	**347,145**	**372,511**	20,676	651,463	672,139
Write-down of inventories	**399**	**5,469**	**5,868**	–	2,552	2,552
Construction costs recognised	**24,919**	**–**	**24,919**	15,308	–	15,308
Depreciation of property, plant and equipment	**9,776**	**11,158**	**20,934**	1,603	18,348	19,951
Amortisation of:						
– Intangible assets *(Note a)*	**6,053**	**21**	**6,074**	8,247	–	8,247
– Prepaid land lease payments *(Note a)*	**135**	**293**	**428**	–	417	417
Auditor's remuneration	**620**	**173**	**793**	774	242	1,016
Exchange losses/(gains), net	**942**	**9,551**	**10,493**	(119)	5,549	5,430
Rental charges on land and buildings under operating leases	**1,444**	**217**	**1,661**	1,472	401	1,873
Loss on disposal of property, plant and equipment	**–**	**908**	**908**	–	–	–
Impairment loss on:						
– Goodwill *(Note b)*	**–**	**–**	**–**	270	1,160	1,430
– Inventories *(Note b)*	**12,508**	**–**	**12,508**	–	–	–
– Trade receivables *(Note b)*	**15,939**	**968**	**16,907**	4,448	6,475	10,923
– Other receivables *(Note b)*	**–**	**33,193**	**33,193**	–	–	–
– Property, plant and equipment *(Note b)*	**–**	**–**	**–**	–	1,761	1,761
Rental income from investment properties less direct operating expenses	**–**	**(2,538)**	**(2,538)**	–	(4,489)	(4,489)
Research and development costs:						
Current year expenditure	**4,262**	**12,622**	**16,884**	1,873	29,645	31,518
Less: Government grants *(Note c)*	**–**	**(174)**	**(174)**	–	(672)	(672)
	4,262	**12,448**	**16,710**	1,873	28,973	30,846
Directors' remuneration *(Note 9)*	**1,929**	**–**	**1,929**	2,129	905	3,034
Other staff costs (excluding directors' remuneration):						
Wages, salaries and allowances	**11,791**	**96,846**	**108,637**	4,203	163,041	167,244
Pension scheme contribution	**115**	**608**	**723**	329	1,180	1,509
Total staff costs	**13,835**	**97,454**	**111,289**	6,661	165,126	171,787

Notes:

(a) The amortisation of intangible assets and the amortisation of prepaid land lease payments for the year are included in "Administrative expenses" in the consolidated statement of profit or loss and other comprehensive income.

(b) The impairment losses on goodwill, inventories, trade and other receivables and property, plant and equipment are included in "Other operating expenses" in the consolidated statement of profit or loss and other comprehensive income.

(c) Government grants have been received for research activities in Mainland China. The government grants released have been deducted from the research and development costs to which they relate. There are no unfulfilled conditions or contingencies relating to these grants.

9. DIRECTORS' REMUNERATION

2013	**Fees HK$'000**	**Salaries, allowances and benefits in kind HK$'000**	**Pension scheme contribution HK$'000**	**Total remuneration HK$'000**
Executive directors:				
Mr. Shan Xiaochang	**–**	**520**	**15**	**535**
Ms. Shan Zhuojun	**–**	**520**	**15**	**535**
Mr. Ma Arthur On-hing	**–**	**520**	**15**	**535**
Independent non-executive directors:				
Mr. Wang Jialian	**108**	**–**	**–**	**108**
Mr. Wang Zhihua	**108**	**–**	**–**	**108**
Ms. Chan Sze Man *(Note iii)*	**108**	**–**	**–**	**108**
	324	**1,560**	**45**	**1,929**

2012	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Pension scheme contribution HK$'000	Total remuneration HK$'000
Executive directors:				
Mr. Shan Xiaochang	–	520	4	524
Ms. Shan Zhuojun	–	520	7	527
Mr. Ma Arthur On-hing	–	520	14	534
Mr. Yang Ching Yau *(Note i)*	–	1,125	–	1,125
Independent non-executive directors:				
Mr. Lee Kam Fan, Andrew *(Note ii)*	90	–	–	90
Mr. Wang Jialian	108	–	–	108
Mr. Wang Zhihua	108	–	–	108
Ms. Chan Sze Man *(Note iii)*	18	–	–	18
	324	2,685	25	3,034

Notes:

i. Mr. Yang resigned as executive director of the Company on 14 December 2012.

ii. Mr. Lee resigned as independent non-executive director of the Company on 31 October 2012.

iii. Ms. Chan was appointed independent non-executive director of the Company on 31 October 2012.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two directors (2012: two directors) whose remuneration are included in directors' remuneration as set out in note 9 above. Details of the remuneration of the remaining three highest paid employees (2012: three employee) are as follows:

	2013 HK$'000	2012 HK$'000
Salaries, allowances and other benefits	3,970	4,263
Pension scheme contribution	143	259
	4,113	4,522

These three highest paid employees (2012: three employees) who remuneration fell within the following bands is as follows:

	2013 Number of employees	2012 Number of employees
Nil to HK$1,000,000	–	2
HK$1,000,001 to HK$1,500,000	2	–
>HK$1,500,000	1	1
	3	3

11. INCOME TAX

	2013			2012		
	Continuing operations HK$'000	Discontinued operations HK$'000	Total HK$'000	Continuing operations HK$'000	Discontinued operations HK$'000	Total HK$'000
Current tax						
– PRC Enterprise Income Tax	213	1,265	1,478	2,458	7,724	10,182
– Other jurisdictions	–	473	473	–	953	953
	213	1,738	1,951	2,458	8,677	11,135
(Over)/under provision in prior years						
– PRC Enterprise Income Tax	(2,526)	(685)	(3,211)	(34)	125	91
– Other jurisdictions	–	(38)	(38)	–	–	–
	(2,526)	(723)	(3,249)	(34)	125	91
Deferred tax (credit)/charge *(Note 35)*	(2,184)	3,552	1,368	(2,062)	(1,668)	(3,730)
Total tax (credit)/charge for the year	(4,497)	4,567	70	362	7,134	7,496

No provision for Hong Kong profits tax has been made for both of the years presented as the Group did not generate any assessable profits arising in Hong Kong during those years.

The subsidiaries established in the PRC are subject to PRC Enterprise Income Tax at 25% for both of the years presented. A PRC subsidiary was registered as a Hi-New Technology Enterprise by the relevant government authority in the PRC and is subjected to the PRC corporate tax at the rate of 15%.

Taxes on profits assessable elsewhere have been calculated at the tax rates prevailing in the jurisdictions in which the Group operates.

11. *INCOME TAX (continued)*

The income tax expense can be reconciled to (loss)/profit before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

	2013	2012
	HK$'000	HK$'000
(Loss)/profit for the year	**(79,680)**	15,927
Income tax expense	**70**	7,496
(Loss)/profit before tax	**(79,610)**	23,423
Tax calculated at the tax rate of 25% (2012: 16.5%)	**(19,903)**	3,865
Expenses not deductible for tax	**25,922**	11,139
Income not subject to tax	**(541)**	(11,875)
Tax loss not recognised	**16**	790
Effect of tax granted to PRC subsidiaries	**(2,254)**	1,105
Effect of withholding tax of 10% on the distributable profits of the Group's PRC subsidiaries	**–**	1,063
Effect of different tax rates of subsidiaries in other jurisdictions	**79**	1,318
(Over)/underprovision in respect of prior years	**(3,249)**	91
Income tax expense	**70**	7,496

As the Group's activities are substantially carried out in Mainland China, the PRC Enterprise Income Tax rate of 25% is adopted in the preparation of the above reconciliation in respect of the current year. The tax rate of 16.5% adopted in the prior year's reconciliation represents Hong Kong Profits Tax rate.

12. *DISCONTINUED OPERATIONS*

During the year, following the disposal of the Company's subsidiary, Taraki Inc., as detailed in Note 40a, the Group discontinued its business of manufacture and sales of loudspeaker systems on 18 July 2013. An analysis of the results attributable to the discontinued operations is as follows:

	1.1.2013 to 18.7.2013	1.1.2012 to 31.12.2012
	HK$'000	HK$'000
(Loss)/profit of the discontinued operations	**(18,329)**	2,957
Gain on disposal of subsidiaries *(Note 40a)*	**18,460**	–
Profit for the year from discontinued operations	**131**	2,957
Profit/(loss) for the year from discontinued operations attributable to:		
Owners of the Company	**15,013**	(5,292)
Non-controlling interests	**(14,882)**	8,249
	131	2,957

12. *DISCONTINUED OPERATIONS (continued)*

The (loss)/profit from discontinued operations are analysed as follows:

	Notes	**1.1.2013 to 18.7.2013 HK$'000**	1.1.2012 to 31.12.2012 HK$'000
Revenue	6	**449,101**	825,054
Cost of sales		**(347,051)**	(654,015)
Gross profit		**102,050**	171,039
Other income and gains	6	**6,675**	23,288
Selling and distribution expenses		**(12,604)**	(32,147)
Administrative expenses		**(73,124)**	(132,915)
Other operating expenses		**(34,161)**	(9,396)
Finance costs	7	**(2,598)**	(9,778)
(Loss)/profit before tax	8	**(13,762)**	10,091
Income tax expense	11	**(4,567)**	(7,134)
(Loss)/profit for the year from discontinued operations		**(18,329)**	2,957
Cash flows from discontinued operations			
Net cash inflows from operating activities		**111,018**	66,228
Net cash outflows from investing activities		**(78,205)**	(76,132)
Net cash outflows from financing activities		**(56,484)**	(16,754)
		(23,671)	(26,658)

13. *DIVIDENDS*

No dividend was paid or proposed during the year ended 31 December 2013, nor has any dividend been proposed since the end of the reporting date (2012: Nil).

14. (LOSS)/EARNINGS PER SHARE

The calculation of the basic and diluted (loss)/earnings per share attributable to the owners of the Company is as follows:

	2013 HK$'000	2012 HK$'000
(Loss)/earnings		
(i) From continuing and discontinued operations		
(Loss)/earnings for the purpose of basic (loss)/earnings per share		
(Loss)/profit for the year attributable to owners of the Company	**(52,169)**	9,051
Effect of dilutive potential ordinary shares:		
(Gain)/loss on change in fair value of:		
– Embedded derivatives of convertible loan notes	**(2,910)**	(12,927)
– Unlisted warrants	**3,925**	(9,585)
Interest on convertible loan notes	**(6,893)**	8,022
Interest on amount due to noteholder	**1,841**	–
Loss for the purpose of diluted loss per share	**N/A**	(5,439)
(ii) From continuing operations		
(Loss)/earnings for the purpose of basic loss per share		
(Loss)/profit for the year attributable to owners of the Company	**(67,182)**	14,343
Effect of dilutive potential ordinary shares:		
(Gain)/loss on change in fair value of:		
– Embedded derivatives of convertible loan notes	**(2,910)**	(12,927)
– Unlisted warrants	**3,925**	(9,585)
Interest on convertible loan notes	**6,893**	8,022
Interest on amount due to noteholder	**1,841**	–
Loss for the purpose of diluted loss per share	**N/A**	(147)

Number of shares

	Number of shares '000	Number of shares '000
From continuing and discontinued operations and from continuing operations		
Number of ordinary shares for the purpose of basic loss/earnings per share	**431,765**	431,765
Effect of dilutive potential ordinary shares:		
Convertible loan notes	**79,497**	79,497
Unlisted warrants	**66,667**	66,667
Number of ordinary shares for the purpose of diluted loss per share	**577,929**	577,929

Diluted loss per share for the year ended 31 December 2013 is not presented because the Group sustained a loss for the year and the impact of conversion of convertible notes and exercise of share options, if any, is regarded as anti-dilutive.

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK$'000	Leasehold improvements HK$'000	Machinery, furniture and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
COST						
At 1 January 2012	115,582	35,416	140,518	6,021	48,640	346,177
Additions	368	413	4,382	4,075	54,636	63,874
Transfer	–	808	20,483	–	(21,291)	–
Acquired on acquisition of subsidiaries *(Note 39)*	17,747	–	41,634	2,317	19,319	81,017
Disposals	–	–	(159)	–	–	(159)
Derecognised on disposal of subsidiaries *(Note 40b)*	–	–	(35)	(942)	–	(977)
Exchange realignment	1,532	204	5,383	1	213	7,333
At 31 December 2012	135,229	36,841	212,206	11,472	101,517	497,265
Reclassified from prepayment for acquisition of property, plant and equipment	–	–	–	–	5,167	5,167
Additions	1,011	1,059	408	368	39,815	42,661
Transfer	–	5,438	40,475	–	(45,913)	–
Disposals	–	(10)	(2,738)	(44)	–	(2,792)
Derecognised on disposal of subsidiaries *(Note 40a)*	(120,083)	(38,662)	(178,115)	(7,109)	(101,158)	(445,127)
Reclassified as held for sale *(Note 26)*	–	–	(5,706)	–	–	(5,706)
Exchange realignment	3,197	895	5,564	351	2,413	12,420
At 31 December 2013	19,354	5,561	72,094	5,038	1,841	103,888
ACCUMULATED DEPRECIATION AND IMPAIRMENT						
At 1 January 2012	4,700	21,094	80,388	2,249	–	108,431
Depreciation for the year	5,306	3,101	10,113	1,431	–	19,951
Impairment losses recognised in profit or loss	–	–	1,761	–	–	1,761
Eliminated on disposals	–	–	(111)	–	–	(111)
Eliminated on disposal of subsidiaries *(Note 40b)*	–	–	(18)	(282)	–	(300)
Exchange realignment	947	120	5,164	(28)	–	6,203
At 31 December 2012	10,953	24,315	97,297	3,370	–	135,935
Depreciation for the year	3,894	2,833	12,920	1,287	–	20,934
Eliminated on disposals	–	–	(1,845)	(39)	–	(1,884)
Eliminated on disposal of subsidiaries *(Note 40a)*	(13,048)	(26,124)	(90,383)	(3,199)	–	(132,754)
Eliminated on reclassification as held for sale *(Note 26)*	–	–	(3,335)	–	–	(3,335)
Exchange realignment	328	569	2,270	144	–	3,311
At 31 December 2013	2,127	1,593	16,924	1,563	–	22,207
CARRYING AMOUNTS						
At 31 December 2013	17,227	3,968	55,170	3,475	1,841	81,681
At 31 December 2012	124,276	12,526	114,909	8,102	101,517	361,330

15. PROPERTY, PLANT AND EQUIPMENT (continued)

The property, plant and machinery, other than buildings and construction in progress, are carried at cost less accumulated depreciation and accumulated impairment, if any. The buildings, which are situated in the PRC, are carried at fair value on Level 3 fair value measurement. The construction in progress is carried at cost less accumulated impairment , if any.

The above items of property, plant and equipment, other than construction in progress, are depreciated on a straight-line basis over their estimated useful lives, less their residual values as follows:

Buildings	Remaining lease terms of the relevant land
Leasehold improvements	5-10 years
Machinery, furniture and equipment	3-20 years
Motor vehicles	2-10 years

The fair values of the Group's buildings at 31 December 2013 and 31 December 2012 have been arrived at on the basis of valuations carried out at those dates by management of the Group and Ascent Partners Valuation Services Limited ("Ascent Partners") respectively. Ascent Partners is an independent valuer having appropriate qualifications and experience. The valuations at those date were estimated using the depreciated replacement cost approach taking account of the aggregate amount of the new replacement cost of the buildings and other site works, from which appropriate deductions may then be made to allow for the age, condition, economic or obsolescence and environmental factors (the "Depreciated Replacement Cost Approach"). There has been no change from the valuation technique used in the prior year. In determining the fair value of the buildings, the highest and best use of the buildings is their current use.

Reconciliation of Level 3 fair value measurements is as follows:

	Buildings HK$'000
At 1 January 2013, at fair value	124,276
Additions during the year	1,011
Derecognised on disposal of subsidiaries	(107,035)
Depreciation for the year	(3,894)
Exchange realignment	2,869
At 31 December 2013, at fair value	17,227

At 31 December 2012, certain of the Group's buildings with the carrying amount of approximately HK$97,211,000 were pledged to secure general banking facilities granted to the Group.

16. *PREPAID LAND LEASE PAYMENTS*

	2013 **HK$'000**	2012 HK$'000
The Group's prepaid land lease payments comprise:		
Land outside Hong Kong under medium-term lease	**6,336**	26,017
Movements during the year:		
At beginning of the year	**26,017**	20,035
Acquired on acquisition of subsidiaries *(Note 39)*	**–**	6,273
Derecognised on disposal of subsidiaries *(Note 40a)*	**(19,447)**	–
Amortisation for the year	**(428)**	(417)
Exchange realignment	**194**	126
At end of the year	**6,336**	26,017
Analysed for reporting purposes as:		
Current assets (included in prepayments, deposits and other receivables)	**126**	417
Non-current assets	**6,210**	25,600
	6,336	26,017

The leasehold lands are situated in Mainland China and are held under medium-term leases.

17. *INVESTMENT PROPERTIES*

	2013 **HK$'000**	2012 HK$'000
At beginning of the year	**34,569**	31,340
Derecognised on disposal of subsidiaries *(Note 40a)*	**(35,347)**	–
Gain on change in fair value *(Note 6)*	**–**	3,045
Exchange realignment	**778**	184
At end of the year	**–**	34,569

The investment properties at 31 December 2012, which were situated in Mainland China under medium-term leases, were carried at fair value on Level 3 fair value measurement. Such properties were held by certain subsidiaries of the Company which were disposed of during the year ended 31 December 2013.

17. *INVESTMENT PROPERTIES (continued)*

The fair value of the Group's investment properties at 31 December 2012 has been arrived at on the basis of valuations carried out at that date by Ascent Partners. The valuations were estimated based on the aggregate of the open market value of the land portions of the properties and the depreciated replacement cost of the building portions of the properties using the Depreciated Replacement Cost Approach. In determining the fair value of the investment properties, the highest and best use of the properties is their current use.

Reconciliation of Level 3 fair value measurement is as follows:

	Investment properties HK$'000
At 1 January 2013, at fair value	34,569
Derecognised on disposal of subsidiaries	(35,347)
Exchange realignment	778
At 31 December 2013	–

At 31 December 2012, the Group's investment properties with the carrying amount of approximately HK$6,400,000 were pledged to secure general banking facilities granted to the Group.

18. *GOODWILL*

	2013 HK$'000	2012 HK$'000
Cost		
At beginning of the year	**1,430**	3,204
Acquisition of subsidiaries *(Note 39)*	**–**	20
Derecognised on disposal of subsidiaries	**(1,149)**	(1,794)
Reclassified as held for sale	**(250)**	–
At end of the year	**31**	1,430
Impairment		
At beginning of the year	**(1,430)**	–
Eliminated on disposal of subsidiaries	**1,149**	–
Eliminated on reclassification as held for sale	**250**	–
Impairment losses recognised	**–**	(1,430)
At end of the year	**(31)**	(1,430)
Carrying amounts		
At end of the year	**–**	–

19. INTANGIBLE ASSETS

	Order backlog HK$'000 *(note (a))*	Trademark and patents HK$'000 *(note (b))*	Total HK$'000
Cost			
At 1 January 2012	17,173	1,342	18,515
Exchange realignment	101	8	109
At 31 December 2012	**17,274**	**1,350**	**18,624**
Additions	**–**	**938**	**938**
Derecognised on disposal of subsidiaries	**–**	**(938)**	**(938)**
Reclassified as held for sale *(Note 26)*	**(17,173)**	**(1,342)**	**(18,515)**
Exchange realignment	**(101)**	**(8)**	**(109)**
At 31 December 2013	**–**	**–**	**–**
Accumulated amortisation			
At 1 January 2012	2,038	33	2,071
Charge for the year	8,120	127	8,247
Exchange realignment	(202)	–	(202)
At 31 December 2012	**9,956**	**160**	**10,116**
Charge for the year	**5,919**	**155**	**6,074**
Eliminated on disposal of subsidiaries	**–**	**(21)**	**(21)**
Eliminated on reclassification as held for sale *(Note 26)*	**(16,069)**	**(302)**	**(16,371)**
Exchange realignment	**194**	**8**	**202**
At 31 December 2013	**–**	**–**	**–**
Carrying amounts			
At 31 December 2013	**–**	**–**	**–**
At 31 December 2012	7,318	1,190	8,508

The amortisation charge for the year is included in administrative expenses in the consolidated statement of profit or loss and other comprehensive income.

Notes:

(a) Order backlog is amortised on a straight line basis over the estimated completion period of each project, ranging from 1.5 years to 3 years.

(b) Patent is amortised over the straight line basis over their estimated useful lives of 10 years.

20. *AVAILABLE-FOR-SALE INVESTMENT*

	2013 **HK$'000**	2012 HK$'000
Cost		
At beginning of the year	–	3,736
Derecognised on disposal of subsidiaries *(Note 40b)*	–	(3,836)
Exchange realignment	–	100
At end of the year	–	–

21. *INVENTORIES*

	2013 **HK$'000**	2012 HK$'000
Raw materials	**3,582**	48,177
Work-in-progress	–	11,072
Finished goods	**25,041**	45,066
Trading stocks	–	458
	28,623	104,773

22. *AMOUNTS DUE FROM CUSTOMERS FOR CONTRACT WORK*

	2013 **HK$'000**	2012 HK$'000
Contract costs incurred plus recognised profits less recognised losses	–	9,735
Less: Progress billings	–	–
Amounts due from contract customers	–	9,735

The construction contracts are undertaken by certain subsidiaries of the Company. On 23 December 2013, the Company entered into an agreement for the disposal of these subsidiaries, accordingly the amounts due from customers for contract work have been reclassified and included in the assets classified as held for sale *(Note 26)*.

23. TRADE RECEIVABLES

	2013 HK$'000	2012 HK$'000
Trade receivables	**104,893**	308,584
Less: Impairment loss recognised	**(23,209)**	(18,120)
	81,684	290,464
Less: Reclassified to assets classified as held for sale *(Note 26)*	**(23,034)**	–
	58,650	290,464

The aging analysis of trade receivables, net of impairment loss, based on delivery date is as follows:

	2013 HK$'000	2012 HK$'000
Within 90 days	**29,956**	228,612
91 – 180 days	**–**	23,129
181 – 365 days	**12,412**	38,723
More than 365 days	**39,316**	–
	81,684	290,464

Included in trade receivables as at 31 December 2013 is retention monies receivable from customers amounted to HK$5,614,000 (2012: HK$4,223,000), of which HK$3,533,000 (2012: HK$1,835,000) was expected to be recovered after one year. The retention monies receivable at 31 December 2013 is included in assets classified as held for sale *(Note 26)*.

The majority of the Group's sales are on open account in accordance with terms specified in the contracts governing relevant transactions. An average credit period of 180 days (2012: 90 days) is granted to customers. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. An aging analysis of the Group's trade receivables, that are past due but not impaired, is as follows:

	2013 HK$'000	2012 HK$'000
Past due:		
91 – 180 days	**–**	23,129
181 – 365 days	**12,412**	38,723
More than 365 days	**39,316**	–
	51,728	61,852

23. *TRADE RECEIVABLES (continued)*

The Group reviews customer credit limit regularly based on historical repayment record. Trade receivables that were neither past due nor impaired related to a number of customers. Having considered the credit quality of the customers and the past experience of debts settlement, management of the Group is of the view that these trade receivables are fully recoverable and impairment loss on the receivables is not required to be made.

The table below reconciled the impairment of trade receivables for the year:

	2013 HK$'000	2012 HK$'000
Balance at beginning of the year	**18,120**	7,096
Reversal of impairment loss *(Note 6)*	**(2,362)**	–
Impairment loss recognised	**16,907**	10,923
Eliminated on disposal of subsidiaries	**(9,923)**	–
Exchange realignment	**467**	101
Balance at end of the year	**23,209**	18,120

24. *PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES*

	2013 HK$'000	2012 HK$'000
Other receivables	**16,776**	79,889
Deposits and prepayments	**11,748**	17,273
	28,524	97,162

An analysis of other receivables is as follows:

	2013 HK$'000	2012 HK$'000
Other receivables	**16,776**	79,889
Less: Impairment loss recognised	**–**	–
	16,776	79,889

The table below reconciled the impairment of other receivables for the year:

	2013 HK$'000	2012 HK$'000
Balance at beginning of of the year	**–**	–
Impairment loss recognised	**33,193**	–
Eliminated on disposal of subsidiaries	**(33,193)**	–
Balance at end of the year	**–**	–

25. *RESTRICTED BANK DEPOSITS*

	2013 HK$'000	2012 HK$'000
Restricted bank deposits	**–**	49,117

Restricted bank deposits represent deposits required and restricted by banks in respect of the issue of letter of credit to certain suppliers. The restricted bank deposits at 31 December 2012, which were denominated in Renminbi, carried fixed interest rate of 0.5% per annum, and were released upon the completion of the respective transactions.

26. ASSETS CLASSIFIED AS HELD FOR SALE/LIABILITIES DIRECTLY ASSOCIATED WITH ASSETS CLASSIFIED AS HELD FOR SALE

On 23 December 2013, the Company entered into an agreement with a third party for the disposal of the Group's 51% equity interest in a subsidiary, Confident Echo Holdings Limited ("Confident Echo"), for a cash consideration of HK$50,980,962, of which a cash deposit of HK$21,000,000 was received by the Company up to 31 December 2013. Confident Echo, through its subsidiaries established in the PRC, is principally engaged in the provision of services in environmental related business. The disposal of Confident Echo was completed on 30 January 2014.

The consolidated assets and liabilities of Confident Echo and its subsidiaries at the end of the reporting period are analysed as follows:

	31.12.2013 HK$'000
Assets	
Property, plant and equipment *(Note 15)*	2,371
Intangible assets *(Note 19)*	2,144
Amounts due from customers for contract work *(Note below)*	30,163
Trade receivables *(Note 23)*	23,034
Prepayments, deposits and other receivables	12,714
Restricted bank deposits	13,960
Bank balances and cash	3,184
Assets of Confident Echo and its subsidiaries classified as held for sale	87,570
Liabilities	
Trade payables *(Note 27)*	(13,806)
Accruals and other payables	(72,847)
Deferred tax liabilities *(Note 35)*	(536)
Liabilities of Confident Echo and its subsidiaries	(87,189)
Deposit received on disposal of Confident Echo	(21,000)
Liabilities directly associated with assets classified as held for sale	(108,189)
Net assets of Confident Echo and its subsidiaries	381

Note:	HK$'000
An analysis of the amounts due from customers for contract work is as follows:	
Contract costs incurred plus recognised profits less recognised losses	30,163
Less: Progress billings	–
Amounts due from contract customers	30,163

27. TRADE PAYABLES

	2013 HK$'000	2012 HK$'000
Trade payables	**30,535**	273,547
Less: reclassified to liabilities directly associated with assets classified as held for sale *(Note 26)*	**(13,806)**	–
	16,729	273,547

In general, the credit terms granted by suppliers ranged from 30 to 180 days. An aging analysis of the Group's trade payables is as follows:

	2013 HK$'000	2012 HK$'000
Within 30 days	**516**	95,897
31 – 90 days	**10,799**	122,463
91 – 180 days	**138**	46,077
181 – 365 days	**14,983**	8,840
More than 365 days	**4,099**	270
	30,535	273,547

28. OTHER PAYABLES AND ACCRUALS

	2013 HK$'000	2012 HK$'000
Other payables	**17,082**	130,098
Accruals	**2,828**	62,683
Deposits received from customers	**–**	36,350
	19,910	229,131

29. BANK AND OTHERS BORROWINGS

	2013 HK$'000	2012 HK$'000
Bank loans	**–**	104,567
Other loan	**–**	30,000
	–	134,567

The bank loans at 31 December 2012, which were carried interest at market rates and were due on demand or within one year, were secured by the Group's buildings, prepaid land lease payments and investment properties with the carrying amounts of HK$97,211,000, HK$12,661,000 and HK$6,400,000 respectively at that date. The bank loans at 31 December 2012 were made by the Company's subsidiaries which were disposed of during the current year.

The other loan at 31 December 2012, which was obtained from a third party, was unsecured, interest bearing at 27.6% per annum and fully repaid during the current year.

30. AMOUNT DUE TO NOTEHOLDER

	2013 HK$'000	2012 HK$'000
Unsecured amount due to noteholder	**45,970**	–

As referred to in Note 33, the Convertible Loan Notes were redeemed by the Company on 9 October 2013 for a consideration of RMB35,956,376 (equivalent to approximately HK$45,460,000). Such consideration payable to the noteholder has been overdue at the end of the reporting period and interest on such payable was charged at 18% per annum. At the end of the reporting period, the amount due to the noteholder, representing the consideration payable and accrued interest thereon, amounted to RMB36,222,355 (2012: Nil).

31. AMOUNTS DUE TO DIRECTORS

The amounts due to directors were unsecured, interest free and repayable on demand.

32. AMOUNTS DUE TO NON-CONTROLLING INTERESTS OF SUBSIDIARIES

The amounts outstanding at 31 December 2012, which was unsecured, interest free and repayable on demand, represents advances made by non-controlling shareholders to certain subsidiaries of the Company which were disposed of during the current year.

33. CONVERTIBLE LOAN NOTES AND EMBEDDED DERIVATIVES

On 9 August 2011 (the "Issue Date"), the Company issued 12% convertible redeemable notes (the "Convertible Loan Notes") due on 8 August 2016 (the "Maturity Date") at a principal amount of RMB33,000,000 (equivalent to approximately HK$40,000,000) to an independent subscriber. Pursuant to the terms of the Convertible Loan Notes, the Notes are convertible into new shares of the Company during the period from 9 August 2012 up to the tenth day immediately before the Maturity Date. The Convertible Loan Notes could be initially converted into new shares of the Company at the conversion price of HK$1.50 per share (the "Conversion Price"), subject to Conversion Price reset adjustment of which the Conversion Price will be adjusted to the lower of (i) the Conversion Price at the dates falling each three month anniversaries after the Issue Date (the "Price Reset Dates"); and (ii) the average closing price per share at the respective Price Reset Dates, subject to a minimum reset price of 40% of the initial Conversion Price, i.e. HK$0.60 per share. The Company shall have the option to redeem the Convertible Loan Notes in whole or in part at the last day of the 24th calendar month from the Issue Date at a yield of 16% per annum. The amount payable shall be the principal amount of the Convertible Loan Notes so redeemed together with interest accrued thereon up to the redemption date. On the 26th, 36th and 48th calendar month from the Issue Date, the noteholder shall have the option to require the Company to redeem the Convertible Loan Notes at a yield of 15% per annum. On the Maturity Date, all outstanding Convertible Loan Notes will be redeemed at a yield of 15% per annum. As at 31 December 2012, the Conversion Price has been reset to HK$0.60 and the Convertible Loan Notes can be converted up to an aggregate 79,497,114 ordinary shares of the Company, assuming a full conversion of the Convertible Loan Notes.

During the current year, at the request of the noteholder, the Company redeemed all of the Convertible Loan Notes on 9 October 2013 at a consideration of RMB35,956,376. Such consideration payable by the Company has been overdue at the end of the reporting period. Interest on the outstanding balance was charged at 18% per annum.

33. *CONVERTIBLE LOAN NOTES AND EMBEDDED DERIVATIVES (continued)*

The Convertible Loan Notes contain two components, liability component and embedded derivatives. The liability component is carried at amortised cost with the effective interest rate of 34.66% per annum. The embedded derivatives are carried at fair value with change in fair value recognised in profit or loss. Movements of the liability component and embedded derivatives during the years are set out as follows:

	Liability component HK$'000	**Embedded derivatives** HK$'000	**Total** HK$'000
At 1 January 2012	24,776	15,837	40,613
Imputed interest charged *(Note 7)*	7,970	–	7,970
Interest paid	(4,859)	–	(4,859)
Gain arising from change in fair value	–	(12,927)	(12,927)
Exchange realignment	129	–	129
At 31 December 2012 and 1 January 2013	**28,016**	**2,910**	**30,926**
Imputed interest charged *(Note 7)*	**6,826**	**–**	**6,826**
Interest paid	**(4,980)**	**–**	**(4,980)**
Gain arising from change in fair value	**–**	**(2,910)**	**(2,910)**
Exchange realignment	**832**	**–**	**832**
Loss on redemption *(Note below)*	**14,766**	**–**	**14,766**
	45,460	**–**	**45,460**
Reallocated to amount due to noteholder on redemption *(Note 30)*	**(45,460)**	**–**	**(45,460)**
At 31 December 2013	–	–	–

Note: The loss on redemption of the Convertible Loan Notes, which represents the excess of the consideration for the redemption of RMB35,956,376 over the aggregate of the carrying amounts of the liability component and derivative components of the note, amounted to HK$14,766,000 which has been recognised in profit or loss in respect of the year.

The fair value of the embedded derivatives at 31 December 2012 was valued by Grant Sherman Appraisal Limited ("Grant Sherman"), an independent valuer having appropriate qualifications and experience, using Black-Scholes Option Pricing Model.

The inputs into the model were as follows:

	31.12.2012
Risk-free rate	0.21%
Expected volatility	79.27%
Credit spread	13.12%
Dividend yield	Nil

33. CONVERTIBLE LOAN NOTES AND EMBEDDED DERIVATIVES (continued)

The risk-free rate was determined with reference to the yield rate of the Hong Kong Exchange Fund Notes with duration similar to the Convertible Loan Notes.

The expected volatility was determined based on the historical volatility of the share prices of the Company.

Credit spread was determined with reference to the Option Adjusted Spread of companies of similar credit rating.

34. UNLISTED WARRANTS

	2013	2012
	HK$'000	HK$'000
At beginning of the year	**5,151**	14,736
Loss/(gain) on change in fair value	**3,925**	(9,585)
At end of the year	**9,076**	5,151

On 9 August 2011, the Company issued 40 unlisted warrants to an independent investor, for a consideration of HK$800,000. Each of the unlisted warrants entitles the holder to subscribe for 26,666,680 ordinary shares of the Company at an initial exercise price of HK$1.50 per share (the "Exercise Price") during the period from 22 August 2011 to 8 August 2016 (the "Exercise Period"). The Exercise Price will be adjusted to the lower of (i) the Exercise Price at the Price Reset Dates; and (ii) the average closing price per share at the respective Price Reset Dates, subject to a minimum reset price of 40% of the initial Exercise Price. Any warrants remained outstanding after the Exercise Period will be lapsed and cancelled. On 9 May 2012, the Exercise Price has been reset to HK$0.60 per share, which is the minimum reset price, and the unlisted warrants are convertible into 66,666,700 new shares of the Company. There was no change in the Exercise Price and no warrants were exercised, lapsed or cancelled during the period subsequent to 9 May 2012 up to 31 December 2013.

The unlisted warrants are stated at fair value, with any gains or losses from change in fair value recognised in profit or loss. The fair value of the unlisted warrants at 31 December 2013 was valued by Shing Yin Appraisal Limited, an independent valuer, using Monte Carlo Simulation. The fair value of the unlisted warrants at 31 December 2012 was valued by Grant Sherman using Black-Scholes Option Pricing Model. The inputs into the models were as follows:

	2013	2012
Risk-free rate	**0.545%**	0.21%
Expected volatility	**58.66%**	79.27%
Expected life	**2.58 years**	3.58 years
Dividend yield	**Nil**	Nil

The risk-free rate was determined with reference to the yield rate of the Hong Kong Exchange Fund Notes with duration similar to the contractual tenor of the unlisted warrants.

The expected volatility was determined based on the historical volatility of the share prices of the Company.

35. DEFERRED TAX

For the purposes of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is an analysis of the deferred tax balances for financial reporting purposes:

	2013 HK$'000	2012 HK$'000
Deferred tax assets	**–**	3,303
Deferred tax liabilities	**(950)**	(12,391)
Deferred tax liabilities, net	**(950)**	(9,088)

Movement in deferred tax assets and liabilities during the year, without taking account of the offsetting of balances within the same tax jurisdiction, is as follows:

	Accelerated depreciation allowance HK$'000	**Provisions and impairment losses** HK$'000	**Revaluation of lands and buildings** HK$'000	**Revaluation of intangible assets** HK$'000	**Total** HK$'000
At 1 January 2012	2,109	(859)	(8,350)	(4,111)	(11,211)
Credited to profit or loss	1,668	–	–	2,062	3,730
Acquisition of subsidiaries *(Note 39)*	–	–	(1,571)	–	(1,571)
Exchange realignment	12	(5)	(43)	–	(36)
At 31 December 2012 and 1 January 2013	**3,789**	**(864)**	**(9,964)**	**(2,049)**	**(9,088)**
(Charged)/credited to profit or loss	**(3,552)**	**–**	**671**	**1,513**	**(1,368)**
Derecognised on disposal of subsidiaries *(Note 40a)*	**(120)**	**884**	**8,392**	**–**	**9,156**
Reclassified to liabilities directly associated with assets classified as held for sale *(Note 26)*	**–**	**–**	**–**	**536**	**536**
Exchange realignment	**(117)**	**(20)**	**(49)**	**–**	**(186)**
At 31 December 2013	**–**	**–**	**(950)**	**–**	**(950)**

Notes:

The balance included deferred tax arising from revaluation of leasehold lands in Mainland China.

Under the EIT Law of the PRC, withholding tax is imposed on dividends declared in respect of the PRC subsidiaries from 1 January 2008 onwards. Deferred tax has not been provided for in the consolidated financial statements in respect of taxable temporary differences attributable to the profits earned by the Mainland China subsidiaries amounting to HK$17,680,000 (2012: HK$18,832,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

At the end of reporting period, the Group has unused tax losses and other deductible temporary differences totalling approximately HK$Nil (2012: HK$16,679,000) available for offset against future profits. No deferred tax asset has been recognised in respect of these deductible temporary differences due to the unpredictability of future profit streams.

36. SHARE CAPITAL

	2013 HK$'000	2012 HK$'000
Authorised		
20,000,000,000 (2012: 20,000,000,000) ordinary shares of HK$0.01 each	**200,000**	200,000
Issued and fully paid		
431,765,000 (2012: 431,765,000) ordinary shares of HK$0.01 each	**4,318**	4,318

37. SHARE OPTION SCHEME

The Group adopted a share option scheme (the "Scheme") which has become effective on 15 June 2012. In accordance with the Scheme, share options may be granted to any employees, consultants or professional advisors, and suppliers or customers of the Group.

The exercise price of the options granted is the highest of (i) the closing price of the Company's shares on the date of the offer of grant, which must be a business day; (ii) the average closing price of the Company's shares for the five trading days immediately preceding the date of the offer of grant; (iii) the nominal value of the share. The options are exercisable at the grant date and have a contractual option term of ten years. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

The offer of a grant of share options may be accepted within 21 business days from the date of the offer of grant of the option. The consideration for a grant of options of the Company is HK$1.00. The exercise period of the share options granted is determined by the Board of Directors.

The maximum number of shares of the Company which may be issued upon exercise of all options granted under the Scheme or any other share option scheme adopted by the Company must not in aggregate exceed 30% of its issued share capital of the Company from time to time. The total number of shares which may be issued upon exercise of all options to be granted under the Scheme and any other share option scheme of the Group must not in aggregate exceed 10% of the shares in issue as at the date of passing the relevant resolution adopting the Scheme unless it is approved by shareholders in a general meeting of the Company.

No share option was granted by the Company during both of the years ended 31 December 2013 and 31 December 2012.

37. SHARE OPTION SCHEME *(continued)*

Movements in the number of share options outstanding and their exercise prices are as follows:

	2013					2012				
	Weighted average exercise price	Number of share options				Weighted average exercise price	Number of share options			
	price HK$	Directors '000	Employees '000	Others '000	Total '000	price HK$	Directors '000	Employees '000	Others '000	Total '000
Outstanding at the beginning of the year	0.857	35,000	4,000	21,200	60,200	0.857	35,000	6,500	21,200	62,700
Forfeited during the year	0.857	–	(4,000)	–	(4,000)	0.857	–	(2,500)	–	(2,500)
Outstanding at the end of the year	0.857	35,000	–	21,200	56,200	0.857	35,000	4,000	21,200	60,200
Exercisable at the end of the year	0.857	35,000	–	21,200	56,200	0.857	35,000	4,000	21,200	60,200

No share option expense has been recognised by the Group for the year ended 31 December 2013 (2012: Nil) in relation to share options granted by the Company.

The weighted average exercise price of the share options granted and outstanding at the end of the reporting period is HK$0.857 (2012: HK$0.857) per share. The weighted average remaining contractual life of outstanding share options granted and outstanding at the end of the reporting period is 7.36 years (2012: 8.36 years).

38. RETIREMENT BENEFIT SCHEMES

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the plans are held separately from those of the Group in funds under the control of trustees. The Group's subsidiaries in the PRC, in compliance with the applicable regulations of the PRC, participate in social insurance schemes operated by the relevant local government authorities. The insurance premium is borne by the Group on a specified proportion of the employee's salaries laid down under the relevant PRC laws and regulations.

The total expense recognised in the consolidated statement of profit or loss and other comprehensive income of approximately HK$768,000 (2012:HK$1,534,000) represents contributions payable to these schemes by the Group at rates or amount specified in the rules of the schemes.

Apart from the above, the Group has no significant obligations under retirement benefit schemes at the end of both of the years presented.

39. ACQUISITION OF SUBSIDIARIES

On 5 January 2012, the Group acquired 100% equity interest in Wealth Great Corporation Limited ("Wealth Great") from a related party, at a consideration of HK$10,000. The Company is incorporated in the British Virgin Islands and is engaged in investment holding.

On 22 August 2012, the Group acquired 100% equity interest in Rich Share Global Limited ("Rich Share") from a related party, at a consideration of US$1. The Company is incorporated in the British Virgin Islands and is engaged in investment holding.

On 10 December 2012, an indirect wholly-owned subsidiary of the Company, Rise Joy Investment Limited ("Rise Joy"), entered into a sale and purchase agreement (the "Agreement"), pursuant to which the Group has agreed to acquire, from a third party (the "Vendor"), 51% equity interest in Shengyan, an entity established in Mainland China, which is engaged in the sale and production of straw briquettes in Mainland China. Pursuant to the Agreement, the purchase consideration of HK$19,127,000 for the acquisition is payable within 60 business days after the relevant Department of Commerce of Mainland China has approved the acquisition. The acquisition was not completed as at 31 December 2012. However, upon signing the Agreement, Rise Joy and the Vendor simultaneously entered into a trust declaration agreement, pursuant to which the 51% equity interest is held by the Vendor in trust for Rise Joy with effect from 10 December 2012. Under these arrangements, the directors consider that such 51% equity interest in Shengyan were effectively acquired by Rise Joy on 10 December 2012, the date on which Shengyan is regarded a subsidiary of the Company. The approval by the relevant governmental departments of Mainland China of the acquisition is yet to be obtained and the consideration for the acquisition of HK$19,127,000 was settled by the Company during the current year.

39. ACQUISITION OF SUBSIDIARIES *(continued)*

The acquisition of Wealth Great, Rich Share and Shengyan was accounted for under business combination. The recognised amounts of identifiable assets acquired and liabilities assumed as at the date of acquisition were as follows:

	Fair value recognised on acquisition			
	Wealth Great HK$'000	Rich Share HK$'000	Shengyan HK$'000	Total HK$'000
Property, plant and equipment	–	–	81,017	81,017
Prepaid land lease payments	–	–	6,273	6,273
Prepayment for acquisition of property, plant and equipment	–	–	5,186	5,186
Inventories	–	–	19,372	19,372
Trade receivables	–	–	41,869	41,869
Other receivables	–	–	33,179	33,179
Bank balances and cash	–	–	890	890
Trade payables	(3)	(7)	(43,571)	(43,581)
Other payables	–	–	(73,358)	(73,358)
Tax payable	–	–	(480)	(480)
Deferred tax liabilities	–	–	(1,571)	(1,571)
Total identifiable net assets at fair value	(3)	(7)	68,806	68,796
Non-controlling interests	–	–	(33,715)	(33,715)
	(3)	(7)	35,091	35,081
Goodwill on acquisition	13	7	–	20
Gain on bargain purchase recognised in other income and gains *(Note 6)*	–	–	(15,964)	(15,964)
	10	–	19,127	19,137
Satisfied by				
Cash paid	10	–	–	10
Cash payable included in accruals and other payables	–	–	19,127	19,127
	10	–	19,127	19,137

An analysis of the cash flows in respect of the acquisition of subsidiaries is as follows:

	2013 HK$'000	2012 HK$'000
Cash consideration paid	(19,127)	(10)
Bank balances and cash acquired	–	890
Net (outflow)/inflow of cash and cash equivalents included in cash flows from investing activities	(19,127)	880

Wealth Great and Rich Share had not contributed significantly to the revenue and results of the Group for the year ended 31 December 2012. Shengyan contributed to the Group's turnover and profit for the year ended 31 December 2012 amounted to HK$15,354,000 and HK$3,493,000 respectively. Had the acquisition of Shengyan been effected on 1 January 2012, the turnover and the profit of the Group for the year ended 31 December 2012 would have been HK$940,916,000 and HK$31,261,000, respectively.

40. DISPOSAL OF SUBSIDIARIES

(a) Disposal took place during the year ended 31 December 2013

On 18 July 2013, the Company disposed of 100% equity interest in a subsidiary, Taraki Inc. ("Taraki"), to a third party and the amount due by the Company to Taraki for an aggregate consideration of HK$122,000,000. Taraki, through its subsidiaries, is engaged in the manufacture and sales of loudspeaker systems.

	HK$'000
Consideration received:	
Consideration received in cash	122,000

Analysis of assets and liabilities at the date of disposal over which control was lost:

	HK$'000
Property, plant and equipment *(Note 15)*	312,373
Prepaid land lease payments *(Note 16)*	19,447
Investment properties *(Note 17)*	35,347
Intangible assets	917
Deferred tax assets *(Note 35)*	1,683
Inventories	72,293
Trade receivables	237,281
Prepayments, deposits and other receivables	37,828
Restricted bank deposits	81,073
Bank balances and cash	68,004
Trade payables	(247,244)
Other payables and accruals	(143,623)
Amounts due to directors	(2,110)
Amounts due to non-controlling interests of subsidiaries	(141,578)
Bank borrowings	(52,465)
Tax payable	(786)
Deferred tax liabilities *(Note 35)*	(10,839)
Net assets disposed of	267,601

Gain on disposal of subsidiaries

	HK$'000
Consideration received	122,000
Net assets disposed of	(267,601)
Non-controlling interests	133,187
Cumulative exchange gains in respect of the net assets of the subsidiaries	30,874
Gain on disposal	18,460

The gain on disposal is included in loss of the year from discontinued operations *(Note 12)*.

Net cash inflow on disposal of subsidiaries	**HK$'000**
Consideration received in cash	122,000
Less: Bank balances and cash disposed of	(68,004)
	53,996

40. DISPOSAL OF SUBSIDIARIES *(continued)*

(b) Disposal took place during the year ended 31 December 2012

In November 2012, the Group disposed of the entire 100% equity interest in Time Pro International Co. Ltd ("Time Pro") for a consideration of HK$2,000,000, and the amount due by Time Pro to group companies of HK$25,555,000 was to be settled subsequently. Time Pro together with its subsidiaries were principally engaged in the engineering, procurement and construction of heat generation plants in Thailand.

Consideration received and receivable	**HK$'000**
Consideration received and receivable in cash	27,555

Analysis of assets and liabilities at the date of disposal over which control was lost:

	HK$'000
Property, plant and equipment *(Note 15)*	677
Prepayment for acquisition of property, plant and equipment	13,244
Goodwill	1,792
Available-for-sale investment	3,836
Prepayments, deposits and other receivables	2,763
Bank balances and cash	235
Other payables and accruals	(47)
Amounts due to directors	(1,694)
Net assets disposal of	20,806

Gain on disposal of subsidiaries	**HK$'000**
Consideration received	27,555
Net assets disposed of	(20,806)
Cumulative exchange losses in respect of the net assets of the subsidiaries	(1,034)
Gain on disposal	5,715

Net cash inflow on disposal of subsidiaries	**HK$'000**
Consideration received and receivable in cash	27,555
Less: Consideration receivable	(25,555)
Bank balances and cash disposed of	(235)
	1,765

41. COMMITMENTS

(a) Capital commitments

	2013 HK$'000	2012 HK$'000
Contracted, but not provided for:		
Buildings	–	35,420

(b) Operating leases

As lessee

At the end of reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2013 HK$'000	2012 HK$'000
Within the first year	1,819	1,301
In the second to the fifth year inclusive	1,528	28
	3,347	1,329

Operating lease payments represent rental payables by the Group for certain of its office premises. Leases and rentals are negotiated and fixed respectively for an average of three years.

As lessor

The minimum rental receivables from investment properties under non-cancellable operating leases are as follows:

	2013 HK$'000	2012 HK$'000
Within the first year	–	5,360
In the second to the fifth year inclusive	–	4,291
	–	9,651

42. *RELATED PARTY TRANSACTIONS*

(a) In addition to the transactions detailed elsewhere in these consolidated financial statements, the Group entered into the following transactions with related parties during the year:

Sales and purchases

	2013 **HK$'000**	2012 HK$'000
Sonavox Electronics (Suzhou Industrial Park) Company Limited (上聲電子（蘇州工業園區）有限公司) ("SSIP"), a non-controlling shareholder of a subsidiary – sales of goods	**279**	708

(b) **Key management personnel compensation**

	2013 **HK$'000**	2012 HK$'000
Salaries and other short-term benefits	**3,836**	3,302
Pension scheme contribution	**157**	35
	3,993	3,337

(c) **Outstanding balances with related parties**

	At 31 December	
	2013 **HK$'000**	2012 HK$'000
Amounts due to non-controlling shareholders of subsidiaries		
Suzhou City Xiangchen District Yuanhe Town Collective Assets Operation Company (蘇州市相城區元和鎮集體資產經營公司) (i)	**–**	3,143
Wuxian City Likou Town Collective Assets Operation Company (蘇州市相城區無線電元一廠) (i)	**–**	646
	–	3,789
Trade receivables from related parties		
SSIP	**–**	212

(i) The balances are unsecured, interest-free and have no fixed terms of repayment.

43. CAPITAL MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balances. The Group's overall strategy remains unchanged from that of the prior year.

The capital structure of the Group consists of net debts (bank and other borrowings less bank balances and cash) and equity attributable to owners of the Company, comprising issued share capital and reserves.

The Group actively and regularly reviews and manages its capital structure to ensure optimal capital structure and shareholders' returns, taking consideration of future capital requirements of the Group and capital efficiency, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities. The Group currently does not adopt any formal dividend policy.

44. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

The carrying amounts of the Group's financial assets and liabilities as recognised at the reporting dates are categorised as follows:

	2013 **HK$'000**	2012 HK$'000
Financial assets		
Loans and receivables		
Trade and other receivables	**75,426**	370,353
Restricted bank deposits	**–**	49,117
Bank balances and cash	**543**	93,822
	75,969	513,292
Financial liabilities		
Financial liabilities at fair value through profit or loss		
Embedded derivatives	**–**	2,910
Unlisted warrants	**9,076**	5,151
Financial liabilities at amortised costs		
Trade and other payables	**36,639**	502,678
Bank and other borrowings	**–**	134,567
Amount due to noteholder	**45,970**	–
Amounts due to directors	**–**	3,310
Amounts due to non-controlling interests of subsidiaries	**–**	65,121
Convertible loan notes	**–**	28,016
	91,685	741,753

44. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, restricted bank deposits, bank balances and cash, trade and other payables, bank and other borrowings, amount due to noteholder, amounts due to directors, amounts due to non-controlling interests of subsidiaries, convertible loan notes and embedded derivatives, and unlisted warrants. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure that appropriate measures are implemented on a timely and effective manner. There has been no change to the types of the Group's exposure in respect of financial instruments or the manner in which it manages and measures the risks.

Currency risk

Foreign exchange risk arises when the group entities enter into transactions denominated in a currency other than their functional currency. The Group's monetary assets and liabilities are mainly denominated in Renminbi, Hong Kong dollars, US dollars and Euro. The exchanges rates among these currencies are not pegged except US dollars and HK dollars, and there are fluctuations of exchange rates among these currencies.

The Group currently does not have a foreign currency hedging policy. However, the management will closely monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

The carrying amounts of the monetary assets and monetary liabilities at the reporting date denominated in currencies other than functional currencies of the related entities are as follows:

	Assets		Liabilities	
	2013	2012	2013	2012
	HK$'000	HK$'000	HK$'000	HK$'000
RMB	**–**	–	**45,970**	30,926
US dollars	**–**	63,682	–	1,828
Euro	**–**	105,647	–	1,501
	–	169,329	**45,970**	34,255

Sensitivity analysis

The following table indicates the approximate change in the Group's profit or loss after income tax expense in response to reasonably possible changes in the foreign exchange rates to which the Group has significant exposure at the end of reporting period. The sensitivity analysis includes balances of assets and liabilities of the group entities where the denomination of these balances is in a currency other than the functional currencies of these entities. A positive number below indicates a decrease in loss for the year (2012: an increase in profit) where the functional currency strengthens against the relevant currency. For a weakening of the functional currency against the relevant currency, there would be an equal and opposite impact on the profit, and the balances below would be negative.

	2013		2012	
	Increase in foreign exchange rate %	**Effect on loss for the year HK$'000**	Increase in foreign exchange rate %	Effect on profit for the year HK$'000
RMB	**5%**	**2,299**	5%	1,546
Euro	**N/A**	**N/A**	5%	(3,905)

44. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies *(continued)*

Interest rate risk

The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise. The Group is exposed to interest rate risk as the group entities may borrow funds at both fixed interest rates and floating interest rates. The Group manages the risk by maintaining an appropriate mix between fixed and floating rate borrowings. Although the board of directors accepts that this policy neither protects the Group entirely from the risk of paying rates in excess of current market rates nor eliminates fully cash flow risk associated with interest payments, it considers that it achieves an appropriate balance of exposure to these risks.

The directors consider that the Group's exposure to interest rate risk of bank deposits, which are short term in nature, is not significant, accordingly no sensitivity analysis is presented.

The following table details interest rates analysis in respect of the Group's borrowings that the management of the Group evaluates their interest rate risk.

The Group

	2013		2012	
	Effective interest rate %	**Carrying amount HK$'000**	Effective interest rate %	Carrying amount HK$'000
Fixed rate borrowings				
– convertible loan notes	**–**	**–**	34.66%	28,016
– other borrowings	**–**	**–**	27.60%	30,000
– amount due to noteholder	**18%**	**45,970**	–	–
Floating rate borrowings				
– short-term bank loans	**–**	**–**	6.45%	104,567

Sensitivity analysis

The following table indicates the approximate change in the loss/profit for the year in response to reasonably possible changes in interest rate to which the Group has significant exposure at the end of reporting period. In determining the effect on profit after income tax expense on the next accounting period, the management assumes that the change in interest rate in respect of floating rate borrowings had occurred at the end of reporting period and all other variables remain constant. There is no change in the methods and assumptions used in 2013 and 2012.

	2013 Effect on loss for the year HK$'000	2012 Effect on profit for the year HK$'000
Increase by 200 basis points	**–**	(1,569)
Decrease by 200 basis points	**–**	1,569

44. *FINANCIAL INSTRUMENTS (continued)*

(b) Financial risk management objectives and policies *(continued)*

Credit risk

The Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

At 31 December 2013, the Group has concentration of credit risk as 39% (2012: 15%) and 89% (2012: 37%) of the trade receivables were due from one customer and five customers respectively.

At 31 December 2013, the Group has also significant concentration of credit risk arising from the amounts due from third parties amounted to HK$12,700,000 (2012: HK$50,631,000) included in other receivables.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

None of the Group's financial assets are secured by collateral or other credit enhancements. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated statement of financial position of the Group after deducting any impairment losses.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

The Group relies on bank borrowings and other financial instruments as a significant source of liquidity. As at 31 December 2013, the Group has available unutilised short-term banking facilities of approximately HK$Nil (2012: HK$137,626,795).

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. For non-derivative financial liabilities, the table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curves at the end of the reporting period.

In addition, the following tables detail the Group's expected maturity for its non-derivative financial assets. The tables have been drawn up based on the undiscounted contractual cash flows of the financial assets including interest that will be earned on those assets. The inclusion of information on these non-derivative financial assets is necessary in order to understand the Group's liquidity risk management as the liquidity is managed on a net asset and liability basis.

44. *FINANCIAL INSTRUMENTS (continued)*

(b) Financial risk management objectives and policies *(continued)*

Liquidity risk (continued)

The amounts included below for variable interest rate instruments for both non-derivative financial assets and liabilities are subject to change if changes in variable interest rates different to those estimates of interest rates determined at the end of the reporting period.

The Group

At 31 December 2013	**Weighted average interest rate**	**Within 1 year HK$'000**	**More than 1 year but less than 5 years HK$'000**	**Total undiscounted cash flows HK$'000**	**Carrying amount HK$'000**
Non-derivative financial assets					
Trade and other receivables	**–**	**75,426**	**–**	**75,426**	**75,426**
Restricted bank deposits	**N/A**	**–**	**–**	**–**	**–**
Bank balances and cash	**0.5%**	**543**	**–**	**543**	**543**
		75,969	**–**	**75,969**	**75,969**
Non-derivative financial liabilities					
Trade payables	**–**	**16,729**	**–**	**16,729**	**16,729**
Accruals and other payables	**–**	**19,910**	**–**	**19,910**	**19,910**
Bank and other borrowings	**N/A**	**–**	**–**	**–**	**–**
Amount due to noteholder	**18%**	**45,970**	**–**	**45,970**	**45,970**
Amounts due to directors	**–**	**–**	**–**	**–**	**–**
Amounts due to non-controlling interests of subsidiaries	**–**	**–**	**–**	**–**	**–**
Convertible loan notes	**N/A**	**–**	**–**	**–**	**–**
		82,609	**–**	**82,609**	**82,609**

At 31 December 2012	Weighted average interest rate	Within 1 year HK$'000	More than 1 year but less than 5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount HK$'000
Non-derivative financial assets					
Trade and other receivables	–	370,353	–	370,353	370,353
Restricted bank deposits	0.5%	49,117	–	49,117	49,117
Bank balances and cash	0.5%	93,822	–	93,822	93,822
		513,292	–	513,292	513,292
Non-derivative financial liabilities					
Trade payables	–	273,547	–	273,547	273,547
Accruals and other payables	–	229,131	–	229,131	229,131
Bank and other borrowings	6.73%	134,567	–	134,567	134,567
Amounts due to directors	–	3,310	–	3,310	3,310
Amounts due to non-controlling interests of subsidiaries	–	65,121	–	65,121	65,121
Convertible loan notes	34.66%	4,872	63,423	68,295	28,016
		710,548	63,423	773,971	733,692

44. *FINANCIAL INSTRUMENTS (continued)*

(c) Fair value measurement

(i) Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis

The Group's financial liabilities at fair value through profit or loss, representing the embedded derivatives of the Convertible Loan Notes and the unlisted warrants, are measured at fair value at the end of the reporting period. The following table gives information about how the fair values of these financial liabilities are determined in particular, the valuation technique(s) and input used.

Financial liabilities	Fair value as at 31 December 2013 HK$'000	2012 HK$'000	Fair value hierarchy	Valuation technical(s) and key inputs
Embedded derivative of Convertible Loan Notes	–	2,910	Level 2	Black-Scholes Option Pricing Model *(Note 33)*
Unlisted warrants	**9,076**	5,151	Level 2	2013: Monte Carlo Simulation *(Note 34)* 2012: Black Scholes Option Pricing Model *(Note 34)*

There were no transfer of the financial liabilities between the levels in both of the years presented.

(ii) Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required)

The directors consider that the carrying amounts of financial assets and financial liabilities at amortised cost in the consolidated financial statements approximate their fair values. The fair values, which are included in Level 3 categories, have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis, with the most significant inputs being the discount rate that reflect the credit risk of counterparties.

(iii) Reconciliation of Level 3 fair value measurements

The financial liabilities at fair value through profit or loss are measured at fair value on Level 2 fair value measurement. Reconciliation of Level 3 fair value measurements is not presented.

45. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2013 HK$'000	2012 HK$'000
Non-current assets		
Property, plant and equipment	–	1
Investments in subsidiaries	–	24,150
	–	24,151
Current assets		
Inventories	18,426	22,909
Prepayments, deposits and other receivables	7,974	30,974
Amounts due from subsidiaries	139,661	40,019
Bank balances and cash	372	392
	166,433	94,294
Assets classified as held for sale	9,500	–
	175,933	94,294
Current liabilities		
Other payables and accruals	1,768	4,009
Other borrowings	–	30,000
Amount due to noteholder	45,970	–
Amount due to a director	26,962	1,200
Convertible loan notes and embedded derivatives	–	30,926
	74,700	66,135
Liabilities directly associated with assets classified held for sale	21,000	–
	95,700	66,135
Net current assets	80,233	28,159
Total assets less current liabilities	80,233	52,310
Non-current liabilities		
Unlisted warrants	(9,076)	(5,151)
Net assets	71,157	47,159
Capital and reserves		
Share capital	4,318	4,318
Reserves:		
Share premium	165,417	165,417
Share option reserve	22,149	24,572
Merger reserve	19,550	19,550
Accumulated losses	(140,277)	(166,698)
Total equity	71,157	47,159

46. SUBSIDIARIES

Details of the Group's subsidiaries at the end of the reporting period

Name of subsidiary	Place of incorporation/ registration/ operations	Class of shares held	Paid up registered capital	Proportion of ownership interest held by the Company Directly 2013 %	Directly 2012 %	Indirectly 2013 %	Indirectly 2012 %	Proportion of voting power held by the Company 2013 %	2012 %	Principal activities
A-Plus Glory Capital Limited	British Virgin Islands ("BVI")	Ordinary	US$1	**100**	100	**–**	–	**100**	100	Investment holding
Modern World Group Limited	BVI	Ordinary	US$5	**100**	100	**–**	–	**100**	100	Investment holding
Ever Wealth Capital Holdings Limited	BVI	Ordinary	US$2	**100**	100	**–**	–	**100**	100	Investment holding
Confident Echo Holdings Limited ("Confident Echo")	BVI	Ordinary	US$1,000	**51**	51	**–**	–	**51**	51	Investment holding
Rich Share Global Limited	BVI	Ordinary	US$1	**100**	100	**–**	–	**100**	100	Investment holding
Taraki Inc.[2]	BVI	Ordinary	US$2	**–**	100	**–**	–	**–**	100	Investment holding
Wealth Great Corporation Limited	Hong Kong	Ordinary	HK$1	**–**	–	**100**	100	**100**	100	Investment holding
Era Smart Trading Limited	Hong Kong	Ordinary	HK$1	**–**	–	**100**	100	**100**	100	Inactive
Honest Smart Investment Limited	Hong Kong	Ordinary	HK$1	**–**	–	**100**	100	**100**	100	Provision of management services to the group companies
Faith King Investment Limited	Hong Kong	Ordinary	HK$1,000	**–**	–	**51**	51	**51**	51	Investment holding
Rise Joy Investment Limited	Hong Kong	Ordinary	HK$1	**–**	–	**100**	100	**100**	100	Investment holding
Sonavox Electronics Company Limited[2]	Samoa	Ordinary	US$1	**–**	–	**–**	100	**–**	100	Investment holding
Wise Point Holdings Limited[2]	Hong Kong	Ordinary	HK$1	**–**	–	**–**	100	**–**	100	Investment holding
宜興瑞添能源技術諮詢有限公司	PRC	Registered	HK$200,000	**–**	–	**100**	100	**100**	100	Inactive

46. SUBSIDIARIES (continued)

Name of subsidiary	Place of incorporation/ registration/ operations	Class of shares held	Paid up registered capital	Proportion of ownership interest held by the Company				Proportion of voting power held by the Company		Principal activities
				Directly		Indirectly				
				2013	2012	2013	2012	2013	2012	
				%	%	%	%	%	%	
Jiangsu Shengyi[1] (江蘇晟宜環保科技有限公司)	PRC	Registered	RMB16,000,000	–	–	**51**	51	**51**	51	Provision of services in environmental protection related business
Shengyan[1] (黑龍江省盛炎新能源開發有限公司)	PRC	Registered	RMB30,000,000	–	–	**51**	51	**51**	51	Provision of services in environmental protection related business
Paradise Holdings Limited[2]	Hong Kong	Ordinary	HK$1	–	–	–	100	–	100	Investment holding
Suzhou Shangsheng Technology Co., Ltd (蘇州上聲科技有限公司) ("上聲科技")[1,2]	PRC	Registered	US$5,130,000	–	–	–	51	–	51	Manufacture and sales of loudspeaker systems
Suzhou Shangsheng PRC Electrics Co., Ltd (蘇州上聲電子有限公司) ("上聲電子")[1,2]	PRC	Registered	US$5,000,000	–	–	–	51	–	51	Manufacture and sales of loudspeaker systems for automobiles
Suzhou Hesheng[1,2] (蘇州和盛實業有限公司) ("和盛實業")	PRC	Registered	US$1,120,000	–	–	–	51	–	51	Investment holding
Suzhou Sonavox Acoustics Co., Ltd (蘇州上昇音響有限公司) ("上聲音響")[1,2]	PRC	Registered	US$2,500,000	–	–	–	51	–	51	Manufacture and sales of loudspeaker systems for home theatres
西安晟科石化工程有限公司[1] (陝西晟宜環保科技有限公司)	PRC	Registered	RMB1,000,000	–	–	**40.8**	40.8	**40.8**	40.8	Inactive
Detroit Sonavox, Inc.[2]	United States of America	Registered	US$200,000	–	–	–	51	–	51	Provision of after-sales services
Sonavox Europe GmbH[2]	Germany	Registered	EUR25,000	–	–	–	51	–	51	Provision of after-sales services
Suzhou Yanlong Electronic Product Co. Ltd. (蘇州延龍電子有限公司)[1,2]	PRC	Registered	US$1,690,000	–	–	–	30.6	–	30.6	Manufacture and sales of loudspeaker systems

46. SUBSIDIARIES (continued)

Name of subsidiary	Place of incorporation/ registration/ operations	Class of shares held	Paid up registered capital	Proportion of ownership interest held by the Company				Proportion of voting power held by the Company		Principal activities
				Directly		Indirectly				
				2013	2012	2013	2012	2013	2012	
				%	%	%	%	%	%	
蘇州尚聲電子有限公司[1,2]	PRC	Registered	RMB5,000,000	–	–	–	51	–	51	Manufacture and sales of loudspeaker systems for automobiles
蘇州上聲國際貿易有限公司[1,2]	PRC	Registered	RMB500,000	–	–	–	51	–	51	Sales of loudspeaker systems

None of the subsidiaries had issued any debt securities subsisting at the end of the year or at any time during the year.

Notes:

1 These entities are registered as sino-foreign equity joint ventures under the PRC law. The English translation of these names is for reference only. The official names of these entities are in Chinese.

2 These entities were disposed of during the year ended 31 December 2013.

Details of non-wholly owned subsidiaries that have material non-controlling interests

The table below shows details of non-wholly-owned subsidiaries of the Group that have material non-controlling interests.

Name of subsidiary	Place of incorporation and principal place of business	Proportion of ownership interests and voting rights held by non-controlling interest		(Loss)/profit allocated to non-controlling interests		Accumulated non-controlling interests	
		2013	2012	2013	2012	2013	2012
		%	%	HK$'000	HK$'000	HK$'000	HK$'000
Confident Echo	*(Note i)*	**49**	49	**(3,004)**	(4,729)	**163**	3,186
Shengyan	PRC	**49**	49	**(9,625)**	3,356	**28,203**	37,002
上聲科技*(Note ii)*	PRC	**-**	49	**899**	10,804	**-**	63,284
上聲電子*(Note ii)*	PRC	**-**	49	**(15,166)**	(4,066)	**-**	69,565
和盛實業*(Note ii)*	PRC	**-**	49	**418**	1,917	**-**	2,095
上昇音響*(Note ii)*	PRC	**-**	49	**(1,033)**	(406)	**-**	9,363
				(27,511)	6,876	**28,366**	184,495

Notes:

(i) Confident Echo was incorporated in the BVI and, through its subsidiaries, is principally engaged in the provision of services in environmental related business in the PRC.

(ii) These entities were disposed of by the Group during the year ended 31 December 2013.

46. SUBSIDIARIES (continued)

Summarised financial information in respect of each of the Group's subsidiaries at 31 December 2013 that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intergroup eliminations.

Confident Echo	2013 HK$'000	2012 HK$'000
Current assets	83,055	38,474
Non-current assets	4,515	11,053
Current liabilities	(87,189)	(42,495)
Equity attributable to owners of the Company	218	3,846
Non-controlling interests	163	3,186
Revenue	35,930	20,480
Expenses	(42,060)	(30,131)
Loss for the year	(6,130)	(9,651)
Profit/(loss) attributable to owners of the Company	(3,118)	(4,922)
Loss attributable to the non-controlling interests	(3,004)	(4,729)
Loss for the year	(6,122)	(9,651)
Total comprehensive expense attributable to owners of the Company	(3,628)	(4,922)
Total comprehensive expense attributable to the non-controlling interests	(3,023)	(4,729)
Total comprehensive expense for the year	(6,651)	(9,651)
Net cash inflows from operating activities	7,209	7,095
Net cash outflows from investing activities	(6,677)	(8,435)
Net cash inflow/(outflow)	532	(1,340)

46. SUBSIDIARIES (continued)

Shengyan

	2013 HK$'000	2012 HK$'000
Current assets	**77,429**	119,672
Non-current assets	**81,586**	86,309
Current liabilities	**(106,840)**	(135,179)
Equity attributable to owners of the Company	**23,972**	33,800
Non-controlling interests	**28,203**	37,002
Revenue	**28,505**	15,354
Expenses	**(48,669)**	(8,505)
(Loss)/profit for the year	**(20,164)**	6,849
(Loss)/profit attributable to owners of the Company	**(10,539)**	3,493
(Loss)/profit attributable to non-controlling interests	**(9,625)**	3,356
(Loss)/profit for the year	**(20,164)**	6,849
Total comprehensive (expense)/income attributable to owners of the Company	**(9,755)**	3,422
Total comprehensive (expense)/income attributable to non-controlling interests	**(8,872)**	3,287
Total comprehensive (expense)/income for the year	**(18,627)**	6,709
Net cash inflow from operating activities	**6,140**	498
Net cash outflow from investing activities	**(6,630)**	(871)
Net cash outflow	**(490)**	(373)

47. SUBSEQUENT EVENTS

As referred to in Note 26, the Company entered into an agreement for the disposal of 51% equity interest in a subsidiary, Confident Echo Holdings Limited, for a cash consideration of HK$50,980,962. Completion of the disposal took place on 30 January 2014.